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Nation's Business®

When You're Asked For A Reference

Why Bank-Law Reform Is An Uphill Fight

Barter: Heading Up In A Down Economy

The Move To FLEX PLANS

Small firms and their workers, like this group at ChromatoChem, Inc., in Montana, are learning that flexible benefits can curb health costs, save on taxes, and improve employee morale.



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Nation's Business VOL. 79, NO. 7



PHOTO: ©MICHAEL GALLACHER

Flexible benefits plans *can save money even for small firms such as ChromatoChem, where Controller Susan Herman, left, proposed flex and consultant J.R. Chipman helped develop it. Cover Story, Page 16.*



PHOTO: ©RICK FRIEDMAN—BLACK STAR

Barter *enabled John Tanian to minimize his car-rental firm's cash outlays. Finance, Page 24.*

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Your response to this poll will be provided to key members of Congress for consideration in the debate over improving the nation's highway system.

Published by the U.S. Chamber of Commerce Washington, D.C.



PHOTO: T. MICHAEL KEZA

Discount nurseries *had no future, Bill Meadows was told. His outlets gross $18 million. Making It, Page 12.*

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Editor's Note

Timely, Thorough, And User-Friendly

Our cover story this month, on flexible benefits, offers me an opportunity to point out how our coverage gives you the full range of the information that you need on such issues. It's timely, it's thorough, and it's user-friendly.

Senior Editor Roger Thompson, our expert on human-resources subjects, based his report not only on trends here in Washington but also on the experiences of small businesses that have adopted flex plans and on the advice of consultants whose living depends on structuring the right plans for their small-business clients. The article also contains a separate report on software that enables a company to administer its own plan.



PHOTO: ©SANTA FABIO—BLACK STAR

Pearl Lipner *is among the consultants who are helping small businesses set up flexible benefits plans.*

You'll see that Thompson has covered the major factors that companies need to be aware of in appraising these benefits plans, but if you want still more information, there's a list of expert sources.

The net result is a package that will give you a solid grounding on this issue at a particularly strategic time.

"For small companies," Thompson reports, "flexible benefits plans are an idea whose time finally has come. Congress created the legal framework 13 years ago. But by the end of the 1980s, very few small companies had followed major corporations in making the switch. There were just too many obstacles—primarily cost and complexity. But our cover story shows that flexible benefits plans now are within the reach of even the smallest companies."

Thompson points out that "a number of changes have made this possible. Powerful, low-cost computers have made flex record keeping a breeze compared with just a few years ago."

Other key considerations are linked to employee morale and to the runaway inflation in medical-care costs. "One size clearly does not fit all when it comes to benefits," Thompson says, "and employers like flex because it gives employees the power of choice. It also helps curb rising benefit costs, especially in health care."

You'll certainly want to file this report for future reference.

Robert T. Gray
Editor

Nation's Business

Letters

The United States Chamber of Commerce, publisher of Nation's Business, is a federation of businesses, trade associations, local and state chambers, and American chambers of commerce abroad.

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BUSINESS MANAGER
Leonard I. Rippa

Washington Could Use More Than A Few Good Women

Your May cover story, "Men, Women & Leadership," should be required reading for President Bush, the leaders of Congress, and the people who run the major political parties.

The political leadership in Washington is about 5 percent female. Our federal government desperately needs the female leadership qualities of consensus building, listening, motivating, caring, openness, and long-range vision.



In government, women could translate these abilities into better constituent service, higher standards of integrity and ethics, and better leadership for all Americans.

George Dean
Southport, Conn.

Breaking The Glass Ceiling

Rightly skeptical of bureaucracy, the business community has long resisted government efforts to impose affirmative-action programs and effect demographic quotas in the work force. Your cover story shows that diversity and complementary styles of leadership are key ingredients in the success of many businesses.

As with other changes, enlightenment will go much farther than force in breaking through the glass ceiling.

Robert T. Park
Bettendorf, Iowa

No Either/Or Attitude

Congratulations on your fine cover story. I was particularly pleased by the fact that the article was not cast in an adversarial mode, but stressed what both men and women can contribute to organizations. So much of what I read seems to assume an either/or attitude: If women are right, men must be entirely wrong, and vice versa.

Sally Helgesen
Author of The Female Advantage
New York

The IRS's Heavy Hand On Small Pension Plans

I want to congratulate you on your March cover story, "The Threat To Pension Plans," and on your May article on the IRS's small-plan actuarial audit program, "The IRS Targets Small Pension Plans." The arbitrary and heavy-handed tactics of the IRS employed in the audit program have disturbing implications for all small-business tax issues, not merely pension and profit-sharing plans.

Indeed, there does appear to be a "hidden agenda," i.e., to discourage small business from continuing to maintain pension plans.

Michael E. Pietzsch
Pietzsch & Williams
Phoenix, Ariz.

Congress Won't Learn

Those interviewed for your pension story correctly lament Congress' collective inability to understand either ERISA or the results of the innumerable revisions to it that Congress has enacted chaotically since 1980.

Obsessed by the blinding need to reduce the national deficit, Congress has abdicated its responsibility for sustaining our nation's voluntary retirement system to teams of quixotic draftsmen of tax legislation.

As author Roger Thompson points out, Congress has often seen fit to exempt itself from the cumbersome restrictions that it has imposed on the rest of us. As long as a decreasing number of its constituents complain, Congress may be expected to find it convenient to sacrifice what remains of the private pension system on the pyre of deficit reduction.

W. Eugene Jessup
Lawrenceville, Ga.

Pension Innovations

The cover story correctly pointed out that costs for small-business pension plans are usually prohibitive, but there are a few recent developments that make it possible to establish a plan.

One such innovation is a prototype pension plan available nationwide through Independent Plan Coordinators, Inc., in Alexandria, Va., that allows small firms to establish a profit-sharing, 401(k), Keogh, or combination plan for just $600 to $900 annually. The plan is

affordable, and it is designed to be turnkey, including everything from legal and tax approval to record keeping and administration.

A number of trade associations and chambers of commerce have endorsed the program as a solution to a key challenge faced by today's small-business owners.

Gary L. Johnson, Regional Director
Pension Investment Sales
Connecticut Mutual
Wilmington, Del.

More On The Arctic National Wildlife Refuge

One of the main reasons America is a great nation is that its business community has been able to meet tough challenges with innovative solutions. Your editorial in the May issue, "Energy Security Requires Development Of Alaska's Arctic National Wildlife Refuge," is shortsighted.

It should be obvious that the ultimate path to total energy security is to curtail our dependence on finite resources like oil and to begin large-scale development of renewable energy sources, such as solar energy.

Your editorial makes no mention of developing unlimited sources. It argues for a temporary quick fix, not a permanent solution.

Jeffrey V. Cefali
Cefali & Cefali
Hobart, Ind.



PHOTO: © MICHELE BURGESS—THE STOCK MARKET

Another Source For Automation Education

Your April cover story, "Upgrade For Growth," contained good information but omitted an excellent source for increasing use of existing hardware and software.

Newsletters, such as those from The Cobb Group in Louisville, Ky., covering operating systems and programs can substantially broaden the information outflow and processing speed of existing equipment.

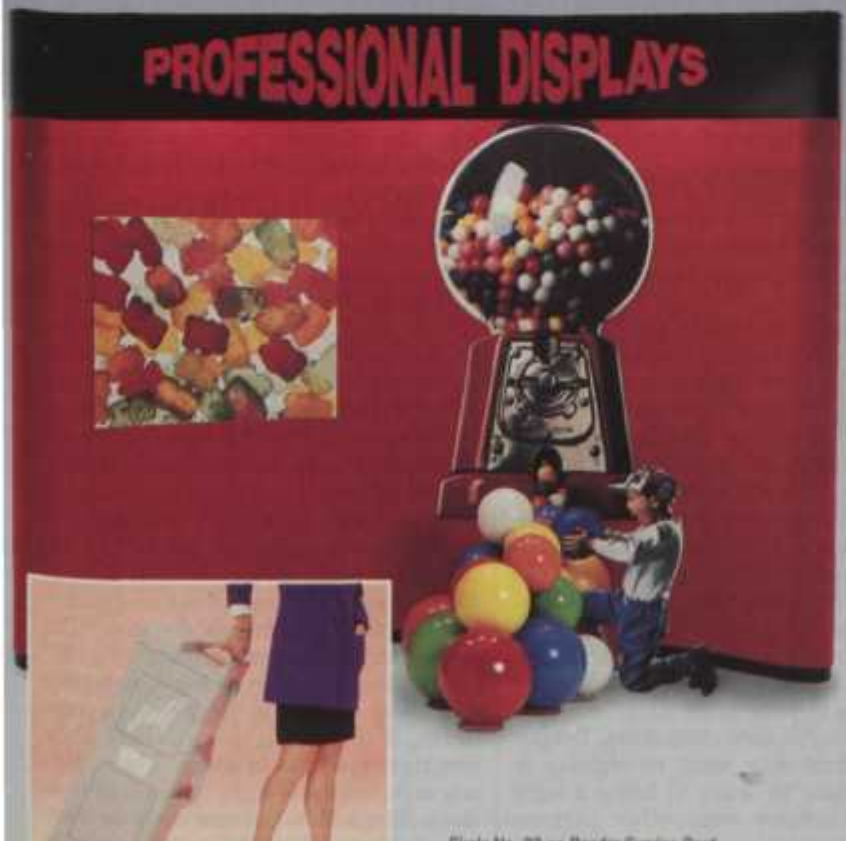
Bobby Rogers
Vice President
Midwest Veneers, Inc.
Clarksville, Ind.

Clarification

Some of the legal advice in a May article on veterans' re-employment rights—"Reservists Regain Jobs And Benefits"—was incomplete. The Veterans' Reemployment Rights Act provides that reservists shall be restored to their old jobs *or* "to a position of like seniority, status, and pay." Because of a recent change in the law governing reservists, all reservists on active duty since Jan. 18 now have 90 days from the date of their discharge to apply for reinstatement with a former employer, and they are protected from discharge from their job without cause for one year.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Managing Your Small Business

Motivating employees, keeping bankruptcy brief, and making clients feel they are part of something exclusive.

By Bradford McKee

PARTNERSHIPS

Follow The Leader

Business partners who decide to share the responsibility of top management may find the arrangement unworkable.

That was the case for Jane Umanoff and Bo Parsons, who own Umanoff and Parsons, a baking and catering company in New York City. After starting their business in the late 1970s, they more or less ran the whole company jointly. Umanoff was head administrator, and Parsons was in charge of operations.

Several months ago they realized "the company couldn't have two leaders," says Umanoff. They agreed that they needed a top manager in charge overall. So they recently realigned their responsibilities. Parsons became president and added Umanoff's administrative duties to his operating duties. She became sales manager and now reports to him. She describes her job as suited to her "outwardly focused" character: "I like to talk to people, and Bo is more methodical and inwardly focused."

Parsons spends 20 percent of his time overseeing production and 80 percent on administrative tasks and long-range plans, Umanoff says, and she focuses on customers' needs and product quality.

"It's better to have one person as president," Umanoff says, because for the company's sake, "one person ultimately has to be responsible." ■



PHOTO: © TOM SOBOLIK—BLACK STAR

Caterers *Jane Umanoff and Bo Parsons: Realigned responsibilities.*

FINANCE

Reaching Across State Lines Could Increase Your Taxes

If your growing business crosses state lines, you should be aware of the potential tax complications.

Ronald K. Draper, tax partner in Minneapolis with McGladrey & Pullen, a nationwide accounting and consulting firm, says the determination of whether an out-of-state company is subject to taxation by another state depends on whether it is engaged in "substantial business activity" in that other state.

Such activity, Draper explains, can consist of establishing an office, accepting orders, approving credit, storing inventory from which sales are made, or providing installation or repair services. Such actions will usually result in establishing sufficient business activity to require registration and the filing of income tax returns. On the other hand, he says, "simple sales solicitation, where orders are subject to approval outside of the state, will usually not result in subjecting the company to that other state's income tax."

Draper says states are becoming very aggressive in pursuing businesses operating within their borders and may seek income tax returns "from the date that you started doing business there." What's more, he says, "most of the states are actively pursuing the collection of sales and use taxes from providers of goods and services."

Draper advises that "planning for tax liabilities in other states today will lessen your administrative burden of filing past-due returns all at once, eliminate penalties and interest, and could even save taxes in your home state."

Of course, in some instances, Draper notes, a firm may want to register in another state in order to bring a legal action or achieve some other purpose under that state's laws. ■

SELLING

Don't Let The Nays Have It

As executive director of Nurse Works, a Bala Cynwyd, Pa., recruiting and consulting firm, Julie Hyland spends much time on the phone trying to develop new accounts. Sometimes she gets no for an answer, but she has developed a technique to handle such rejection: Don't let too many noes mount up at once.

On a given day, she says, "if your first couple [of calls] are successful and you get an appointment, you're on a roll." On the other hand, she continues, "two noes taint the rest of your calls. It changes your frame of reference." So to avoid being disheartened by a stream of negative responses, she intersperses cold calls with follow-up sales calls and customer-service checkups by phone. ■

MOTIVATION

Show Employees Where They Fit In

Rosemarie Evans, president of Cleveland Mold & Die Co. Inc., in Cleveland, says loyalty and diligence among her employees are fine, but she also wants them to have a competitive verve. "It's a matter of being challenged each morning when you come in," she says. That's why she attempts to show them the grander scheme of the industry beyond the company.

Evans connects even her more-insulated staff members, such as engineers and production people, with the firm's customers. When a customer wrote Evans to laud the quality of her firm's products, Evans photocopied the letter and attached an appreciation note of her own for employees to take home to their families, "so the people at home would understand" the value of their family members' work.

When customers ask for improvements, Evans assembles the staff to figure out how to make products better. Employees also keep current on quality-control goals in their area, she says. "I'm relying on them to participate."

Another eye-opener for employees was their visit to a Toledo, Ohio, customer, a die-casting plant where they saw their products in action. There, Evans says, employees got "a sense of how these things fit"—and saw their own accomplishments as well. ■

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SERVICE

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Keeping current with 600 customers is not easy when they require your services infrequently. That's why Aldonna Ambler formed a club for her clients, to keep them in touch with Ambler Organizational Consultants, her growth-strategy firm in Cherry Hill, N.J.

The Ambler Client Club packages a lot of the extras that Ambler already was giving away to retain customers. For instance, Ambler's staff looks for news articles that clients might find useful and mails them with personal notes. Her consultants also stay alert for business opportunities that might interest clients.

When possible, Ambler invites clients to take part in panel discussions at her frequent public-speaking engagements. "It gives them marvelous visibility," she says.

Each member of Ambler's Client Club gets a personalized membership card, which she says they carry more than they carry her business card. Client-only seminars and newsletters have a "VIP feel," she says, and milestones in her clients' lives get notice also.

"How many cards does a company get for its 12th anniversary?" she asks, implying at least one—from Ambler. "We keep our eye out for our customers," she says, and it keeps them coming back. ■

BANKRUPTCY

"Prepackaged" Chapter 11 Speeds The Process

Many bankruptcies drag on for months, legal experts say, but a so-called "prepackaged" Chapter 11 bankruptcy helped Kroy Inc. wrap up its bankruptcy in under 90 days.

Kroy, in Scottsdale, Ariz., makes lettering and labels. Before filing for bankruptcy, the company drew up a reorganization plan blessed by a committee of its major creditors, says Howard Klemmer, the firm's president. The larger creditors' lead helped establish a plan that also appealed to Kroy's smaller vendors, says Klemmer.

Once in court, Kroy took pains to share details of the reorganization with all vendors, dealers, employees, and customers. Outsiders could call a Kroy hot line to ask questions about the company's status. Inside Kroy, management's office doors were taken off their hinges to demonstrate openness to the staff.

Klemmer stepped up Kroy's marketing, going on the road himself to show confidence in his company. Frequent staff meetings preserved "internal strength," he says, and consistent communication paid off. "Nobody ever had the fear that we were going out of business." ■

START-UP STRATEGIES

Profit Sharing With A Twist

Del Fleming and Paul Hayes want their $7-million-a-year firm, Air Relief Inc., in Mayfield, Ky., to compete nationally with a large company that makes and services air-compressor parts. But from the time they started their business, in 1985, they have seen that their growth could be hindered by parts shortages and tight cash flow. And although they wanted to make their own parts, they didn't want to bog down their marketing and service efforts with the costs and demands of manufacturing.

To keep that from happening, Fleming and Hayes offered two manufacturing experts the chance to open their own on-site machine shops to make Air Relief's parts. Hayes and Fleming financed the two new businesses under a payback agreement that is effective once the shops become profitable.

Now Air Relief engineers design parts, then sell the designs to the small machine shops—one of which outgrew the plant and moved across the street. Air Relief then buys back a certain quantity of parts from the machine shops under a captive agreement. "We are their only customer, and they are our only vendor," Fleming says.

Paul Hayes describes it as "allowing others to make a profit so your cash flow is easier."

Fleming says the arrangement allows Air Relief, with 80 employees, to expand more readily and still "keep a small concept to our business." ■

MANUFACTURING

Quality-Control Techniques

Midsized manufacturers and their suppliers use a variety of approaches to ensure the quality of their products. Here are the most popular methods, with percentages of companies using each particular technique.

	Manufacturers:	Suppliers:
Post-production error detection	94	96
Stressing quality over quantity	72	83
Pre-production error detection	60	77
Worker authority to halt production	64	68
Defect-tolerance levels	27	39

Makers of high-technology goods are more likely to have 100-percent inspection than are consumer- or industrial-goods manufacturers, which are more likely to sample randomly for quality.

Source: Grant Thornton survey of 250 companies

EMPLOYEE RELATIONS

Easing AIDS Anxieties

The most effective AIDS-education programs in the workplace are in-depth discussions of the disease conducted by staff managers, says a researcher at the Georgia Institute of Technology.

"Longer programs tend to be better than shorter ones," says David Herold, a professor of organizational behavior at Georgia Tech, and "people in the company have higher credibility because they understand [your] business" better than an outside expert might.

Herold says the biggest impact of AIDS in the workplace may not be health costs for a company but rather the refusal of co-workers to deal with an employee who has AIDS or human immunodeficiency virus (HIV) infection.

Company managers can "tailor the presentation to the level of fear" about AIDS among employees, says Herold. For instance, supervisors know best what jobs might trigger employees' safety concerns. More-extended talks "get into the humanity of the disease," he says, and encourage tolerant attitudes toward AIDS patients at work. ■

NB TIPS

✔ *Product Liability in the United States: A Primer for Manufacturers and Their Employees*, covers the basics of product-liability law and explains how manufacturers can cut their exposure to litigation. Single copies of the 81-page paperbound book are free to any manufacturing company. Additional copies are $11.95 each. Make checks payable to Perkins Coie. Send requests to Keith Gerrard, Perkins Coie, 1201 Third Ave., Seattle, Wash. 98101-3099.

✔ The phone number for ordering *What Business Must Know about the Americans with Disabilities Act* is 1-800-638-6582. It was listed incorrectly in an article on the new law in the June issue. NB

Entrepreneur's Notebook

Look At Every Option —And Beyond

By Thomas Hierl

When my partner and I started our company three years ago, our biggest hurdle was funding. As we acquired our financing, however, we got more than money. We learned the importance of pursuing many options at the same time. Our best opportunities for capital, we discovered, were to be found not just in the private or the public sector, but in both.

Our company had evolved from our experience at a small new company in Somerville, N. J., that made digital integrated circuits for computer operations. I was in the materials department, which grew the thin layers of crystals on top of the computer wafers.

Like many start-up firms that are capital-intensive, much of the company's equipment was frequently idle. So we opened our department to outside companies, growing crystals on computer wafers to their specifications. Although the rest of the company was failing, this department was making money, and I began to think that it could survive on its own.

In late 1988, I started Quantum Epitaxial Designs Inc. with a salesman from my department. (An epitaxy is a layer of crystal growth on an object.) We wanted to transform our profit-making segment of somebody else's firm into our own successful company.

Unsure about how to proceed, I bought a book on how to write a business plan, and I followed its suggestions. I wrote a plan identifying what we needed to run the business, and I wrote proposals to venture-capital firms. Investment firms praised the plan but said they weren't interested. Some said our technology didn't mesh with the deals they make; others said the $275,000 we sought for operating capital was too far below their multi-million-dollar deals.

Our luck began to change when a Pennsylvania state program agreed to provide us with funding through the Ben Franklin Technology Partnership, which gives qualified small high-tech firms about one-third of their necessary capital if they obtain the rest through the private sector. The partnership referred us to the NEPA Venture Fund, located in the same building in Bethlehem, Pa.

Working with NEPA was both thrilling and frustrating. Even though I had test-driven the business with my former employer, NEPA had me researching questions I hadn't anticipated. Each question and suggestion from NEPA made me take a new look at my business plan. Early in 1989, NEPA agreed to supply venture funding of $275,000, based on our getting our equipment.

Around that time, we secured space at a business incubator run by the Ben Franklin Technology Center at Lehigh University, in Bethlehem. This not only saved us money but also enhanced our credibility. The Ben Franklin program has a high rate of success with start-ups, and our double affiliation with it was like a seal of approval. It also became important in our search for equipment.



PHOTO: ©SAL DIMARCO-BLACK STAR

Thomas Hierl: *Crystals on wafers.*

We had hoped to lease the equipment we had used at our former employer's from its leasing company. But that company wanted us to take all the employer's equipment, not just what we needed. We then had two options: buy equipment for $600,000 or lease equipment from someone else. But leasing companies were nervous about supplying their expensive and specialized equipment to start-up firms, and they wanted a guarantee—for 100 percent of the cost of the equipment. That meant we needed $600,000 whether we leased or bought the equipment. Without that much money in the bank as a guarantee, the leasing companies wouldn't touch us. Venture leasing firms, which want an equity interest, also shut us out. Finally, someone suggested we get a bank loan.

We had not pursued a bank before because we thought none would be interested in a start-up. We got the name of a bank through the Ben Franklin program; I think our participation in that program worked like an endorsement, and we were able to secure a loan—80 percent of which was backed by the Small Business Administration—at about one point over prime. The payments were less than what it would have cost to lease the equipment, so we bought.

By fall 1989, we had received the equipment. We were in business. A few months later, our company was profitable. It now has six employees, exports semiconductor material to Japan, and works with the world's biggest corporations.

In a year, we'll graduate from the Ben Franklin incubator. We need more equipment and space. We're exploring options—a state manufacturing loan program, a local economic development grant program, leasing companies, and more.

Pursuing parallel approaches in the current economy is critical. An entrepreneur can never be too busy to plan for the alternatives. While the state loan program looks ideal for our future, I've been told it will be easier to win the lottery than get state money in this economy. If that turns out to be true, we'll be disappointed—for a very few minutes. And then we'll move on to the next option. NB

Thomas Hierl is president of Quantum Epitaxial Designs Inc. of Bethlehem, Pa. He prepared this account with Contributing Editor Charles A. Jaffe.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

Dateline: Washington

Business news in brief from the nation's capital.

By Mary McElveen

TRANSPORTATION

Highway Bill Could Pose Quandary For Administration

The Bush administration could soon find itself in a Catch 22 situation over major highway legislation moving through Congress.

In his State of the Union speech earlier this year, President Bush listed transportation and crime legislation as his top domestic priorities. However, Transportation Secretary Samuel Skinner says he will urge the president to veto a bill that fails to include two central elements of the administration's surface-transportation proposal—an updated national highway system and higher state and local matching shares for federal funds.

A major conflict over the highway issue emerged in May when the Senate Environment and Public Works Committee approved a bill backed by environmentalists and urban planners that included neither of the key elements of the Bush proposal.

The committee-passed bill, introduced by Sen. Daniel Patrick Moynihan, D-N.Y., would reduce the federal government's role in maintaining the interstate highway system. It would leave road and transit planning to state and local governments and allow the states and localities to spend federal funds for whatever surface-transportation programs they prefer. The Moynihan measure also requires a smaller share of matching funds from states and localities than the administration seeks.

Both approaches would authorize the federal government to spend $105 billion on highway and mass-transit projects over five years.

The administration's potential dilemma could be resolved if the House passes a bill similar to the administration's proposal and a House-Senate conference committee agrees to the administration's wishes. However, the likelihood of such a compromise is uncertain. ■



PHOTO: CHRIS SALCUTO—THE STOCK MARKET

The Bush administration *has proposed a national highway plan, but a Senate bill would leave planning to the states and localities.*

INTERNATIONAL TRADE

Business's Trade Focus Shifts Following "Fast Track" Win

Having won a major legislative victory over trade-negotiating authority for the president, business has shifted its focus to the content of the proposed North American free-trade pact that the United States, Mexico, and Canada hope to conclude over the next couple of years.

The House and Senate voted in late May to continue the administration's "fast-track" negotiating authority, meaning that Congress will have to approve or reject any trade pact without amendments.

The administration has promised to consult closely with Congress as it works out the details of a North American pact, particularly regarding the U.S.-Mexico trade relationship. Meanwhile, Congress retains the right to rescind fast-track authority at any time.

While business lobbied fiercely for continuation of fast-track authority, it did not promise unqualified support for a North American agreement.

To win support from American business, according to the U.S. Chamber of Commerce, a free-trade agreement must, among other things:

- Be comprehensive.
- Cover tariffs, nontariff barriers, agriculture, investment, services, and intellectual-property protection.
- Benefit U.S. and Mexican trade.
- Require that a certain percentage of a product exported to the U.S. from Mexico actually originate in Mexico.
- Allow temporary safeguards to help industries, labor, and localities adjust to any serious injury that might result from freer trade.
- Establish staged reductions of tariffs and nontariff barriers.
- Include a well-defined process to remove trade barriers identified after an agreement takes effect.
- Provide effective dispute-settlement procedures. ■

RESOURCES

Comprehensive Energy Bill Would Free Producers

A comprehensive energy bill approved by the Senate Energy and Natural Resources Committee in May represents an important step forward for energy producers.

The bill, which is headed for a vote in the full Senate, would open the Arctic National Wildlife Reserve in Alaska for oil and gas exploration, streamline nuclear-plant licensing procedures, ease entry into the electricity-generation business, and reduce building and operating restrictions on public utilities and independent power producers.

Attempts to impose oil import fees and increase average automobile fuel-efficiency requirements were defeated. However, the committee expanded the area off the coast of California covered by an administration ban on oil drilling until the year 2000.

Amendments to the bill, including further attempts to impose new auto-mileage requirements, are expected on the Senate floor.

In the House, work continues on a national energy strategy. ■

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Making It

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How A High-School Coach Became The "Farmer" In The Discount Dell

When Bill Meadows considers people for a manager's slot in his Meadows Farms retail nursery business, one thing he wants to know is whether they live in homes they can barely afford. If they do, they have an edge over those of equal talent who live less pretentiously.

"A guy with a mortgage payment that's too big for him probably has a big ego," Meadows says, approvingly. Egos drive people to appear successful, he explains, making them likely to work extra-hard to reach pay levels needed to keep up appearances.

As the owner of a Chantilly, Va.-based business with annual sales around $18 million, Meadows himself lives pretentiously, in a 13,000-square-foot house. And he is the first to confess that he has no small ego.

But when he looks back, he recalls how he and his wife, Betty, "lived meagerly" in the early years—secondhand furniture and cars, third-floor walk-ups—even though they could have spent more freely. To this day Meadows, 55, believes in paying cash whenever possible for "things that wear out"—meaning everything but land.

So would he truly prefer a deep-in-hock manager? Meadows smiles; he was only talking probabilities.

In his own case, thrifty habits helped to build one of the country's largest privately owned nursery firms. It has 21 outlets, most in the Virginia and Maryland suburbs of Washington, D.C.

Meadows entered the nursery business with little knowledge of horticulture. Natives of Crab Orchard, W.Va., he and Betty started out in 1959 working in the Fairfax County, Va., public schools, he as a physical-education teacher and football coach, she as a librarian.

Bored by the first long summer vacation, Meadows tried selling vegetables at the roadside the next summer. He and Betty bought produce from farmers and hired high-school students to sell it from step-vans.

They made $8,000 the first summer—about what their school salaries totaled then. By 1968, their combined school salaries were up to $62,000, thanks in part to master's degrees they both had earned, but their summer profit had reached $87,000 on volume of $200,000.

The Meadowses quit their school jobs and went into business full time that year. They added plants to their produce in the early '70s and soon were exclusively in the nursery business.

Meadows' key decision was to make



Bill Meadows *with customers at one of his retail nurseries.*

Meadows Farms a discount operation. "I was told I would fail in the first year," he says. "There never had been a discount nursery. Everyone else charged for service. I gave terrible service—my salesclerks were high-school kids who might not know the difference between an azalea and a rhododendron—but I gave good quality at a good price."

Meadows Farms held costs down not only by hiring low-paid help and buying skillfully from growers but also by not guaranteeing plants as other nurseries did.

Today Meadows Farms gives guarantees at most of its locations, for competitive reasons. But it still relies on high-schoolers—as many as 300 are hired part time for the peak season of March to May, to supplement a like number of full-time, year-round employees. And volume purchasing from growers around the country still holds costs—and prices—down.

These days, Meadows leaves an increasing number of operational decisions to son Jay, 30, who is first among the company's four vice presidents.

Meadows often doesn't bother to drive to company headquarters, keeping in touch by phone (there are 26 phones in his house) and by fax.

He has a large, opulent home office, not far from a pool table and a jukebox full of rock records, but at company headquarters, his office is Spartan. A nameplate outside says, simply, "Farmer."

Meadows likes to be called "Farmer"—a sobriquet he adopted in his vegetable-selling days because "the corn tasted better to customers if they thought we'd grown it." He uses the nickname in ads, and he is chauffeured in a white limousine with license plates that read "Farmer 1."

The title is strictly fanciful, though. Meadows once tried growing azaleas himself, but the operation was a bust. His forte, he readily admits, is not farming but marketing.

—Henry Altman

How An Environmental Scientist's Business Grew From Contaminated Soil

On a visit to upstate New York when she was 21, Kathryn Kelly went to look at the fenced-off Niagara Falls neighborhood of Love Canal, where hundreds of homes had been evacuated in the late 1970s because of contamination from underground hazardous waste. At that moment she recognized what her life's work would be: "I remember standing at the fence and saying, 'This is what I'm going to do; I'm going to prevent Love Canals.'"

Today Kelly, 32, who went on to earn her Ph.D. in environmental toxicology at Columbia University, has turned that empathetic pledge into a million-dollar business. Her Seattle-based company, Environmental Toxicology International Inc., analyzes scientific data drawn from potentially hazardous sites like Love Canal and assesses and communicates the health risks posed by contaminants at those sites.

ETI's clients, which include government agencies, private firms, and citizens groups, can then decide what action may be necessary to make a location safe for its intended use. With a staff of 19, ETI also consults on environmental regulations, conducts research, and educates the public about health risks.

When she incorporated ETI six years ago as president and sole stockholder, Kelly had little business background. "I just assumed doing good science and providing good service would be sufficient to keep a business alive," she says. "It took me about a year to figure out I needed as good or better management skills as I needed as a toxicologist if I was going to have a viable business." She enrolled in an evening management program.



PHOTO: ERICH FEINMANN

Seattle entrepreneur *Kathryn Kelly, center, holds a retreat each spring.*

Gradually Kelly built up a reputation in health-risk assessment. ETI's annual revenues climbed from $34,000 in the first year to $314,000 in the second, and they recently reached seven figures.

ETI emphasizes participatory management. All employees met one Saturday in 1988 to contribute to the creation of the 250-word mission statement. Until then, Kelly says, "we were a group of very bright people going in all sorts of different directions." Since 1989, at a retreat each spring, employees have discussed plans for ETI's growth.

Kelly's own business savvy has increased to the point that she owns a second business. Two years ago, she started Alden Analytical Laboratories, which analyzes air, water, soil, and tissue samples for contaminants. Its staff is smaller but its revenues are larger than ETI's.

Kelly has no dreams of grandeur for the future of ETI. "We'll never be a hundred-person firm," she says. "I believe you can't be a large firm doing this kind of work and keep up the quality that we are known for. There's no final document that goes out of here without my extensive review."

As an example of the ethical pitfalls she is determined to avoid, Kelly recalls the time that ETI heard from a lawyer representing an alcoholic-treatment center next to a municipal landfill. The lawyer was bringing a class-action suit on the ground that emissions from the landfill were hindering the patients' recovery.

"There isn't a shred of scientific data I could call upon to substantiate that claim," Kelly says. "That would have been an unethical project for us to take on. There's a lot of ambulance chasing that goes on in this industry."

Kelly wants to build a very different kind of record for ETI. "I know I'm going to be here in 20 years," she says, "and I've got to be able to defend everything we've done."

—Janet Beales

How A San Francisco Insurance Broker Transformed Race Into A "Nonissue"

Aaron Richardson owns a 35-employee San Francisco insurance brokerage called ARISCO (for Aaron Richardson Insurance Services Corp.). He tells a story about what happened last year when a Los Angeles insurance brokerage was seeking a contract with a public agency in the San Francisco area.

A certain percentage of the contract was set aside for minorities, so the Los Angeles brokerage had to present a bid in tandem with a minority-owned firm. The brokerage's executives met, trying to think of a minority insurance firm they could work with. Then one of them remembered that Richardson was about to buy the company he had been running for several years.

"What about Aaron?" he said.

The brokerage's executive vice president—who had known Richardson for some time—was perplexed for a moment. As he later told Richardson, "Aaron, I don't want you to take this the wrong way, but I turned to him and said, 'Is Aaron black?' "

Richardson is, indeed, black, and no one meeting him could doubt that—not that he would want them to. "I've become very comfortable with myself, as being black," he says.

The point of Richardson's story is that the consciousness of color can fade to the vanishing point when people focus their attention on what really matters. His race has been a "nonissue" in his career, he says. "If you walk into a room saying 'I'm black,' that's how you're going to be perceived. I've never really carried that around with me."

Richardson, 48, has built his career by developing self-insurance programs—risk-sharing pools—for physicians and hospitals in California, and, he recalls, "I had to go to a lot of rural areas, where seeing blacks is not a daily occurrence. I've always been received very positively. I was there to talk with them about insurance, and I think they could see that I knew what I was talking about."

Richardson grew up an only child in Akron, Ohio, in a predominantly black neighborhood that he describes as lower-income but "not a ghetto." He was vice president of his senior class at a majority-white high school, then attended Howard University, in Washington, D.C., where, he says, he was exposed for the first time to a large number of "blacks from families who had done very well." He had grown up in Akron at ease in an integrated environment, but at Howard, he says, he learned how to feel more at ease with himself.

After graduating from Howard, he took a job as a clerk in a railroad's legal department, then moved into a succession of jobs with big insurance companies and brokerages. In 1975 he landed with a brokerage in San Francisco, where he helped administer a risk-sharing pool for physicians.

As malpractice insurance premiums have skyrocketed, medical professionals have turned increasingly to such programs. Late in the '70s, Richardson set up a self-insurance program for small California hospitals. In 1986, when the hospitals decided to form their own company to administer the program, they hired Richardson—by then a vice president of a major brokerage—to run it. Under his stewardship, he says, the program's assets rose from $15 million to $80 million in three years.

Last year, Richardson bought the company from the hospitals. He will continue to run the risk-sharing pool, under a long-term contract—its assets now exceed $100 million—but ARISCO also offers what it describes as a full range of property and casualty coverage.

Richardson knows that the fastest way for ARISCO to grow would be to take full advantage of the preferences offered to minority firms, but he worries about the long-term effects of such a strategy.

He says that "a lot of minority-owned businesses aren't able to provide the services," and he doesn't want ARISCO to be confused with them. "I want us to be viewed as a professional organization, a quality organization," he says, and only incidentally as a black-owned company.

Still, he can hardly afford to pass up a shot at government contracts with percentages set aside for minority firms. His solution: "We're going to pick one brokerage that we're going to work with on a joint-venture basis; and that's it. We'll always show up with the same organization" when contracts with minority set-asides are up for bid.

He thinks that such a continuing association will help to dispel any suspicions that ARISCO has little to offer but its minority status. It will probably mean too that he has to pass up some business opportunities, but he says that can't be helped: "I know that I can't have my cake and eat it, too."

—Michael Barrier

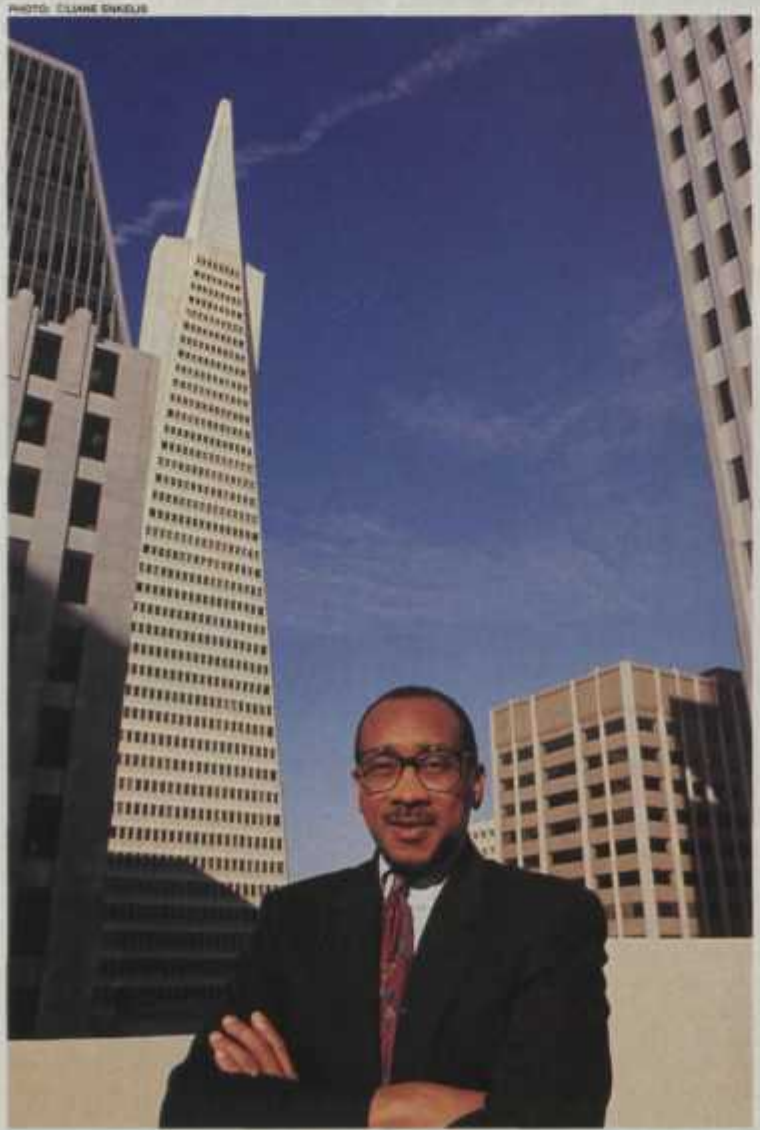


PHOTO: CLIANE ENKELIS

San Francisco's *financial district is home base for Aaron Richardson.*

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COVER STORY

Switching To Flexible Benefits

By Roger Thompson

Susan Herman gave her boss a suggestion he couldn't ignore: Offer employees new health and child-care benefits and, by doing so, save the company money.

"He thought it sounded too good to be true," Herman recalls. But it wasn't.

Since last October, ChromatoChem, Inc., a biotechnology firm in Missoula, Mont., has enabled employees to set aside a portion of their salaries in untaxed reimbursement accounts to pay for certain health-care and day-care expenses. Every dollar that goes into an employee's reimbursement account lowers both the employee's and the company's tax bills. Four of ChromatoChem's six employees are taking part, and everybody is happy, says Herman, the firm's controller.

Welcome to the new era of flexible benefits, where the combination of employee choice and tax breaks is reshaping the delivery of company benefit plans—and helping contain benefit costs.

The technique adopted by ChromatoChem—the use of reimbursement accounts—is one of three basic flexible-benefits approaches that can be used individually or in combination.

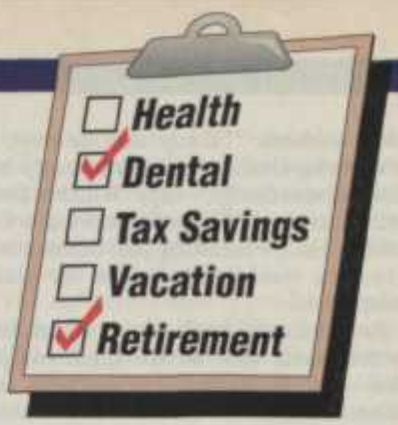
Reimbursement accounts are particularly appealing because of the tax breaks they offer. For every $1,000 put into a reimbursement account rather than the employee's paycheck, an employee in the 28 percent federal tax bracket saves $280, while one in the 15 percent bracket saves $150. In every state except New Jersey and Pennsylvania, employees also save on state taxes, which typically are 5 to 7 percent. In addition, both the employer and the employee save an additional 7.65 percent, or $76.50 per $1,000, on Social Security taxes. In many cases, the employer's

PHOTO: ©MICHAEL GALLACHER



Controller *Susan Herman, right foreground, proposed a flexible benefits plan for ChromatoChem.*

Small firms are moving from the sidelines to the playing field in offering employees flexible benefits—a strategy that can cut taxes, widen benefit choices, and lessen the impact of rising health costs for employers and employees alike.



payroll tax savings offset the added administrative costs of flexible reimbursement accounts. (See the chart on Page 20.)

The program at ChromatoChem was easy to set up and is a snap to administer, says Herman. She does all the record keeping on a personal computer with the aid of specially designed software. Moreover, employees got two new benefits that the company could not have offered otherwise. And the tax savings made the option attractive for everyone involved.

For employers, reimbursement accounts also create a mechanism for shifting a greater share of rising health-care costs to employees, but on a tax-favored basis that cushions the financial impact for the employees.

Although tax incentives drive reimbursement accounts, choice itself is the dominant factor in another type of flexible benefits plan—the cafeteria plan. Cafeteria plans offer employees a full range of choices among different *types* of benefits and *levels* of coverage, in addition to reimbursement-account tax savings.

Cafeteria plans once were the exclusive domain of large companies, but they are now being implemented by smaller companies as well, such as Image Express, a Southfield, Mich., firm that edits television commercials and has 22 employees.

Says Pearl C. Lipner, a consultant with Image Express: "We have a formula based on seniority and salary that determines how much money goes into each employee's benefit package. They can take those dollars and spend them however they want."

By necessity, small companies once stood on the sidelines and watched as corporate giants pioneered the "flex" concept. The barriers to entry were just too high: Start-up and administrative costs made flex prohibitively expensive; insurance companies showed little interest in developing flex products for the small-business market; and companies too small to have a full-time benefits administrator couldn't find affordable advice about flex.

Now, most of those barriers have begun to fall, and small companies are moving from the sidelines onto the flex playing field, proving they can compete on a benefits level with their much larger counterparts. Image Express, for example, pays an administrative firm $5 per employee per month to handle the paperwork for its cafeteria plan.

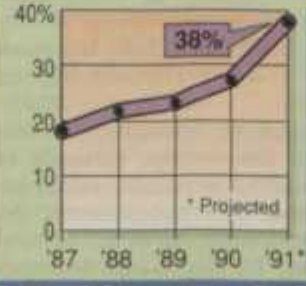
Although benefits experts expect an explosion of flex plans among small companies during the 1990s, few small firms now offer flex. J.R. Chipman, the Missoula consultant who guided the development of ChromatoChem's reimbursement plan, estimates that less than 5 percent of all firms with fewer than 50 workers have flexible benefits.

Yet the demand is there. Given the choice between two identical jobs—one that provides employees with some flexibility in choosing benefits and one that does not—90 percent of American workers would select the job with benefit choices, according to a recent Gallup Poll. Nearly half of the respondents said they have special needs that could be met with flexible benefit plans, including child care, dental and eye care, additional health insurance, and retirement savings.

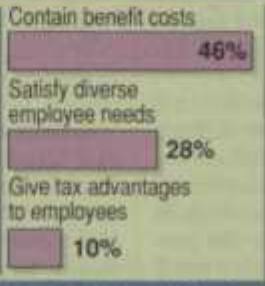
Employers, it seems, are listening to



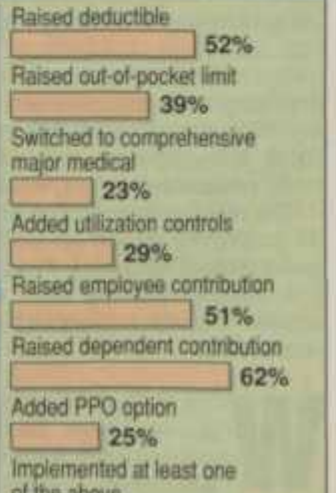
More Employers Adopt Flexible Benefit Plans



Employers' Primary Objectives For Adopting Flex



Health Plan Changes Most Often Adopted When Employers Switch To Flex Benefits



Source: Foster Higgins survey of 1,016 large companies, 274 with flexible benefit plans.

Flex Plans Help Contain Medical Costs

Monthly Costs Per Employee With And Without Flex Benefit Plan



Source: Kushner & Co.

CHART: MARCY MULLINS

their workers. "I'd say that interest in flex among small employers recently has risen dramatically," says William Bennett, president of BenefitAmerica, a Columbia, S.C., consulting and administrative firm specializing in flex for small companies.

As employers seek advice about flex, professionals who advise small companies—such as accountants, lawyers, and insurance brokers—are making it their business to learn more about it. For example, Nelson Rutherford, a partner in the Portland, Ore., accounting firm of Alten Sakai, says that his small-business clients' curiosity about flex spurred the firm to give reimbursement accounts a try. "We wanted to see just how difficult [flex] is to operate and whether we could recommend it," says Rutherford.

The results: Over half of Alten Sakai's 30 employees signed up when the program started on Jan. 1. "I think overall it is working out very well," says Rutherford. "Clearly, it is something I would recommend."



PHOTO: ©SANTA FABIO-BLACK STAR

Consultant *Pearl Lipner, center, oversees a benefits plan for Image Express' 22 employees, including AnnaMargaret Santiago and Julie Harrison.*

What is flex? "It's not a benefit per se," says Kenneth Feltman, executive director of the Employers Council on Flexible Compensation, a Washington, D.C., lobbying organization that promotes flex on Capitol Hill. "Flex is a delivery system for existing benefits."

As such, flex comes in three basic forms: Two are built on the employees' ability to set aside untaxed dollars to purchase benefits that are not otherwise provided by the employer, and one is built on choice itself, enhanced by tax breaks.

Premium-conversion account. The first and simplest form of flex, the premium-conversion account, allows employees to pay their share of premiums for health insurance, group term life insurance, or disability insurance with pretax dollars. Since employees know the amount of these premiums they will pay over a year, they simply direct their employer to deduct the money in equal amounts from their paychecks.

Many companies can handle the payroll adjustments in-house with their current accounting systems. Others may need to add special software. (See the story on Page 22.) Or a company can contract with one of the numerous payroll accounting or insurance companies that handle the paperwork as part of their service to employers.

Among small and midsized employers, premium-conversion accounts are by far the most common flex-benefit offering. Nineteen percent of companies with 50 to 1,000 workers had implemented premium-conversion accounts by the end of 1988, according to the latest survey on the subject, commissioned by UNUM Life Insurance Co. of Portland, Maine.

Reimbursement Accounts. The second form of flex, known variously as flexible spending accounts, salary-reduction plans, or reimbursement accounts, allows employees to use untaxed dollars to pay for health-care expenses not covered by company insurance or for dependent-care expenses. There is no statutory dollar limit on medical reimbursement accounts, although few employers allow sums greater than $3,000 a year. By law, dependent-care accounts may not exceed $5,000 a year.

Reimbursement accounts may stand alone, but typically they are set up to work alongside premium-conversion accounts, since the latter also offer tax advantages for life and disability insurance. In effect, reimbursement plans

10 Questions For Your Flex Plan Administrator

William Bennett, president of BenefitAmerica, suggests these guidelines for screening third-party administrators and insurance companies for your flex plan:

1. Examine financial statements for stability. Insurers and third-party companies sometimes fail without leaving adequate records for a new administrator.
2. Get proof of bonds and errors-and-omissions coverage to make sure you won't be liable if the administrator makes a mistake or an employee steals money.
3. Determine how long the company has been providing administrative services for flexible benefits. Don't let newcomers to the field experiment with your employees.
4. Ask how many clients the company administers, and request the names of three or four as references. And ask for names of some accounts the company no longer has.
5. In checking references, ask why they went to flex plans, what problems they met, what they would do differently, whether the administrator's reports and tests were timely and accurate, whether reimbursement deadlines were met, and whether they would recommend the administrator in question.
6. Obtain specifics of how the company plans to communicate with your employees and to install and administer the plan.
7. Determine what the administrator expects of your staff initially and on an ongoing basis.
8. If you have the capability, see if the administrator can receive your data via tape or disk.
9. Check carefully the administrator's proposed reimbursement cycles and procedures for submitting claims for flexible spending accounts.
10. Review the administrator's record-keeping capabilities. Remember that you are dealing with a tax-qualified plan, and deductibles are an expense to you. An audit will require production of accurate records. There must be adequate documentation that funds were paid to employees only after expenses were incurred.

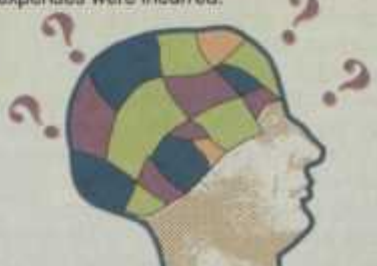


CHART: MARCY MULLINS



give employees a benefits checking account. And they do not require a company to redesign its existing benefits plan.

Here's how reimbursement accounts work: Before the start of the company's benefit plan year, employees must estimate their medical and dependent-care (child-care or elder-care) expenses for the coming year. They may set up either or both types of reimbursement accounts. Then the amount they designate is deducted from their paychecks in equal installments over the year and never reported to the Internal Revenue Service as taxable income.

When employees incur dependent-care expenses or medical expenses not covered by the insurance plan, they pay for them out of pocket, then submit a request for reimbursement.

Medical reimbursement accounts make up "the real key to flex for small employers," Chipman says. "If all you offer is one health plan, each employee can use the medical reimbursement account to cover deductibles and even uninsured dental and vision care. That gives employees a range of choice formerly available only with large companies."

Medical reimbursement accounts can be used to provide employee benefits that a company otherwise cannot afford. For example, some health insurers now sell small-employer medical plans that give employees the option to purchase dental, vision, or prescription-drug coverage. Because there is no minimum participation requirement, the additional coverage can be offered to as few employees as choose to purchase it. They pay the premiums themselves with the tax-advantaged reimbursement account.

Some employers boost their workers' purchasing power by contributing to their medical reimbursement accounts. This is accomplished with either lump-sum contributions, for example, $1,000 per worker, or by establishing a percentage match for each dollar of employee set-aside, for example, 50 cents from the employer for every dollar set aside by the employee.

Medical reimbursement accounts aren't solely for companies that already have health insurance, however. Even companies without health insurance still can offer these accounts, permitting employees to pay deductibles—but not premiums—and other unreimbursed expenses incurred under a spouse's health plan with another employer.

About 25 percent of all large companies already offer both reimbursement accounts and premium-conversion accounts, according to a 1990 survey by Hewitt Associates, a consulting firm based in Lincolnshire, Ill. Among the companies surveyed by Hewitt, an average of 18 percent of all eligible employees signed up for medical reimbursement accounts and 3 percent for dependent-care accounts. Medical reimbursement account contributions averaged $594 per worker, and dependent-care contributions averaged $2,696.

Significantly higher percentages of employees tend to sign up for reimbursement accounts among small companies, says Chipman. He estimates that 35 to 40 percent of all eligible employees pick medical reimbursement accounts, and 5 to 10 percent pick dependent-care accounts.

Although size is an issue with cafeteria plans, it poses no barrier to implementing either a premium-conversion or reimbursement plan. "I would recommend premium-conversion and reimbursement accounts all the way down to one employee, as long as the company is a corporation," says Bennett, of Benefit-America. Under current law, flex plans must benefit "employees" solely. Thus, partners and proprietors of a firm may not participate in their company's plan. In addition, S-corporation owners are treated as partners or proprietors and are excluded from participation.

Cafeteria Plans. The third type of flex plan, called full flex or cafeteria plan, gives employees a fixed amount of benefit dollars to spend on a variety of types and levels of benefits. If the cost of the benefits selected exceeds the amount of employer contribution, employees may fund the remainder with tax-free dollars through both their premium-conversion account and reimbursement account. Thus, employees have wide latitude in tailoring benefits to fit their individual needs.

The cafeteria menu typically includes health, life, and disability insurance, 401(k) retirement savings plan, dental and vision care, and vacation time. Employees have the option of selecting different levels of insurance. For example, health plans may offer deductibles set at $100, $500, and $1,000. The higher the deductible, the less expensive the plan. Employees also may be able to choose several different multiples of annual salary for group term life insurance, paid with after-tax dollars or different levels of long-term or short-term disability insurance. For disability insurance, employees could use untaxed dollars to pay the difference between the employer contribution and their own selection.

The larger the company, the more likely it will offer a cafeteria plan. While relatively few small firms have implemented cafeteria plans, 27 percent of all firms with more than 1,000 workers had done so by 1990, according to a survey by Foster Higgins, a New York-based consulting firm. (See the chart on Page 17.)

Nonetheless, cafeteria plans aren't out of reach for small firms. "One of the big myths about cafeteria plans is that you have to have 1,000 employees to implement one," says Gary Kushner, president of Kushner & Company, Inc., a Kalamazoo, Mich., consulting and administration firm specializing in small-business flex. "With groups of 50 or



PHOTO: ©STEVEN BLOOM-BLACK STAR

The reimbursement plan *that Nelson Rutherford, right, implemented at his firm, Alten Sakai, in Portland, Ore., is administered by Terri Huff.*

above, we look at full flex," unless employees' ages, health, or other characteristics militate against it, says Kushner. Insurers still balk at offering coverage to small groups with unusually high numbers of unhealthy employees.

"We administer cafeteria plans for companies with as few as 50 or 60 employees, and if you compared their plans to those offered in big companies, you couldn't tell the difference," says Kushner. He has helped even smaller companies, like Image Express with 22 employees, set up cafeteria plans.

Because cafeteria plans require considerable attention to details of design, communication, and administration, small companies usually hire an outside administrator to handle the job. Lipner, of Image Express, advises: "Get yourself the best administrator you can find, and move all the paperwork outside the company." Buying special flex computer software to manage the job in-house becomes practical for companies with more than 300 employees, says Bennett, of BenefitAmerica.

Lipner cites two other convincing reasons to hire an outside administrator.

First, she says, "if you have someone in-house who tells an employee he can do something under the plan, and if the advice turns out to be wrong, that opens up a liability issue for the employer. I want a professional handling that kind of problem."



Second, an outside administrator takes the heat off the employer when somebody has a problem or a complaint concerning the plan, Lipner says. An outside administrator takes the problem out of the workplace.

Regardless of the type of flex plan offered, from the simplest to the most elaborate, employee education is the key to its success. "I can design the best flex plan in the world, and if the employees don't understand it, it's going to die," says Kushner. He recommends that details of the plan be presented to small groups of employees and their spouses.

"A lot of employees today may not be able to read all the written materials an employer hands out about the plan," adds Kushner. "When there is good communication during implementation of a plan, [followed by] ongoing communications, employers will be pleasantly surprised by the level of employee understanding and appreciation of the benefits."

Flex plans are not without certain drawbacks, however, and these should be considered carefully in advance of implementation. Regardless of the company's size, flex poses two important risks, one for the employer and the other for the employee.

Under an IRS rule issued in 1989, the full yearly amount of a medical reimbursement account must be available to an employee at any time during the year, regardless of the amount in the account. Thus, large claims early in the year may require some advance funding by the employer.

An employee who quits and has received reimbursements in excess of contributions causes the company to take a loss, unless the company has structured the plan to permit the employer to deduct the remaining contribution from the final paycheck.

While this 1989 rule caused much initial concern among employers, it had no serious adverse financial impact on companies during its first year of implementation, according to a Hewitt Associates survey of large companies.

One effective way for employers to limit exposure under the rule is to cap the size of medical reimbursement accounts. Small employers might set a limit of $1,000. The Hewitt survey found that after the rule was issued, large employers reduced their limits from an average of $3,800 to $2,900.

The risk for employees under flex is the use-it-or-lose-it feature of medical and dependent-care reimbursement accounts. Any money remaining in an employee's account at the end of the year is forfeited to the employer.

Benefits experts say this rule has stunted the growth of reimbursement accounts because employees are afraid of losing unspent funds. Those who do use the accounts tend to keep their contribution levels low. As a result, employee forfeitures also are low, ranging on average about $33 for both medical and dependent-care accounts, according to Hewitt research.

Flex plans require nondiscrimination testing to ensure that highly compensated employees don't receive a disproportionate share of the benefits. Although the tests are not difficult, compliance is essential. Failure to pass the tests may mean that all benefits under the plan are taxable to plan participants.

Flexible benefits plans aren't a new idea. Congress gave its blessing to the concept when it enacted Section 125 of the Tax Code in 1978, permitting employees to choose between nontaxable benefits—such as health insurance and life insurance up to $50,000—and taxable benefits—such as vacation days or cash. Section 125 also

Employees Save Taxes With Flexible Spending Accounts

Without Flex	With Health Flex		With Dependent-Care Flex	Without Flex
$24,000	$24,000	Annual Salary	$24,000	$24,000
0	1,000	Before-Tax Contribution	3,000	0
24,000	23,000	Taxable Income	21,000	24,000
3,600	3,450	Federal Income Tax @ 15%	3,150	3,600
1,836	1,760	FICA Tax @ 7.65%	1,606	1,836
1,200	1,150	State Income Tax @ 5%	1,050	1,200
1,000	0	Expenses After Taxes	0	3,000
16,364	16,640	Net Take-home Pay	15,194	14,364
	276	Flex Tax Savings	830	

Employers Also Lower Their Taxes With Flexible Spending Accounts

Expenses	With FSAs	Without FSAs
Annual Payroll For 20 Workers	$480,000	$480,000
Minus FSA Health And Dependent-Care Contributions	9,000	0
Taxable Payroll	471,000	480,000
FICA Tax (7.65%)	36,031	36,720
Net Employer FICA Savings	689	

Note: Average annual salary of $24,000. Five employees put $600 each into health-care FSA; two put $3,000 each into dependent-care FSA.

CHART: MARCY MULLINS

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Selecting Software To Run A Flex Plan

By Michael Alexander

If you are thinking about administering your flexible benefits plan on an in-house computer, think service, not savings. This advice comes from software publishers and third-party administrators.

The cost of buying and using most software for flexible benefits plans ranges from about $2,500 to $5,500 in the first year. In comparison, third-party administrators typically charge $3 to $5 per employee per month. At that price, it may not pay you to administer a flex plan in-house unless you have at least 300 employees enrolled in your plan, says Richard Ong, president of Ong & Co., a plan administrator in Overland Park, Kan.

Saving money on software is not always the key issue with small companies that want to administer their flex programs, says Timothy Yeager, president of A.W. Rehn & Associates, a plan administrator in Spokane, Wash. "Most companies that administer their own flex programs are really looking for a little more control or a little more flexibility than they can get from a third-party administrator."

On the other hand, adds Yeager, hiring a third-party administrator eliminates confidentiality problems that might arise when a small company administers a flex plan in-house. For example, an employee submitting a reimbursement claim for psychiatric treatment might feel uncomfortable dealing with a company bookkeeper who also handles the flex plan.

There are about a dozen microcomputer-based packages on the market. They run on IBM personal computers or compatibles with either an 80286 or an 80386 Intel Corp. microprocessor and a hard disk drive.

It makes little difference if the monitor is monochrome or color, although color is visually more pleasing. The price of the flexible-benefits software is between $1,750 and $4,500. Many companies also charge $600 to $1,000 per year in maintenance fees, which cover, among other things, telephone hot-line help and program updates when benefits regulations change. Telephone support, if billed separately, typically runs about $60 an hour.

One exception to the minimum-employee rule is Benefit Innovations of Missoula, Mont. J.R. Chipman, company president, has developed a flex management handbook that comes with telephone technical support and software for a total of $985. Unlike the other companies selling software, Chipman has designed his flex package for companies with fewer than 50 workers.

What should you look for in a program for administering flexible benefits? "You're looking at ease of use, whether it is cost-effective, and whether the rules and regulations are in it," says Rick Bindler, marketing representative at Datair Employee Benefit Systems Inc., a software publisher in Westmont, Ill.



PHOTO: CHUCK KNEYSE-BLACK STAR

With under 300 *employees, you may not want to administer flex in-house, says Richard Ong.*

Most programs are based on a system of menus that guide users through the steps of setting up accounts, entering data, creating reports, and so on. They are easy to use, but you should figure on a day to a week for training. More-sophisticated packages will have help screens in pop-up windows so you won't have to dig through a manual.

All packages are capable of generating the wide variety of reports—from mailing labels to employee account summaries—that are needed to administer the plan. Some programs allow you to tailor standard reports to fit individual needs. "No one is ever happy with standard reports," according to Charles Kerr, president of Insurance Systems Group, Inc., a software publisher based in Raleigh, N.C.

Keep in mind that employee data are among the most sensitive a company can store in its computers. Look for packages that offer password security that both limits access to authorized users and maintains a record of who logs onto the system and how the system is used.

You should consider flex-plan programs that can adapt as your company grows or changes, Kerr says. Although it is not likely that you will outgrow the program (most can accommodate thousands of employees), you may decide to switch software or move your records to a different computer system. Look for a program that allows you to interact with payroll, pension, and other related programs. Many packages will run on personal-computer networks, although some software publishers charge more for the feature.

Most software vendors offer free demonstration programs designed to highlight key features, but the demos may not function like the real thing. Mayer Hoffman McCann, a software publisher and accounting firm based in Kansas City, Mo., charges $50 for a fully functional test package that self-destructs after a specified number of uses, says Scott Davidson, account representative at Mayer Hoffman McCann.

The quality of telephone technical support varies widely. Ask the vendor for customer references, and call them to find out how responsive the company has been in resolving problems.



PHOTO: CRAIG SWEAT-GAMMA LIAISON

Companies that run *their own plans are usually looking for control, says Timothy Yeager.*

Michael Alexander is a senior editor of ComputerWorld, *an industry publication.*

established the legal basis for premium-conversion and reimbursement accounts.

Although Section 125 has been refined through regulations, it still governs the entire range of flex plans offered by employers today.

Throughout the 1980s, major corporations perfected the flex concept. The initial push came from the desire to create benefit plans that would meet the needs of an increasingly diverse work force, experts say. The traditional one-size-fits-all benefits plan has become as outdated as the Ozzie and Harriet era. Gone are the days when the typical worker was a middle-aged white male with a spouse at home taking care of two children. Just one in five employees now fits that description.

But concern for work-force diversity is no longer the leading issue for employers pursuing flex plans. Diversity now takes a back seat to rising health-care costs. During the past two years alone, average health-insurance premiums have jumped more than 40 percent, according to Foster Higgins. For many small companies, increases of that magnitude have come annually.

"Cost control is now the No. 1 reason that small employers are looking to flex," says Kushner. "If rising costs have created a health-care crisis for large employers, they have had a catastrophic effect on small employers. Many are looking to flex to help control benefit costs in the future as opposed to cutting benefits now."

One way employers use flex to control costs is to shift some of the increase in health-care expenditures to employees. At the same time that most companies introduce flex, they also raise health-plan deductibles, increase dependent-care costs, and/or require a higher percentage of employee contribution after the deductible is met. (See the chart on Page 17.) However, premium-conversion and reimbursement accounts soften the financial blow by allowing employees to pay their higher share of costs with untaxed dollars.

Cafeteria-style benefit plans also give employers the ability to implement a "defined-contribution" approach to benefits. As health and other benefit costs continue to rise, employers can determine what portion of the added costs to absorb and what portion to pass on to employees, thus gaining a new measure of control over future costs.

Cost shifting with flex is a delicate issue and one that employers handle in various ways.

"The amount of cost shifting that takes place is completely dependent upon the employer's objectives behind



the flex design," says Karen Graves, a flex consultant in Boston with the Wyatt Co., a benefits consulting firm. "Some employers have no intention of having any shift to employees. They just want to make sure the employees get the range of choices that they need. And some say they want to shift, say, 10 percent of any future cost increases to employees."

Adds Graves: "There has been some bad feeling when employers have tried to gloss over the issue of cost shifting. We urge employers to be up-front about the realities of benefit costs."

Even when flex means a larger financial burden for employees, most still prefer the new plan to the old one because they value the ability to choose that accompanies the introduction of flex, says Feltman, of the Employers Council on Flexible Compensation. "We found that 93 percent of all women who had been in flex for at least one year didn't want to go back to traditional benefits. Among men, almost 80 percent didn't want to go back."

In Kushner's experience, most companies are more interested in long-term cost containment than quick-fix cost shifting. "It's rare to have clients go into flex primarily looking to shift costs to employees," he says. "By far, most want to control utilization of the health plan to prevent use where it is inappropriate."

Flex helps to eliminate unnecessary medical services—not just shift costs—in three ways, says Kushner.

First, flex tends to eliminate expensive duplication of coverage, where both an employee and spouse have health insurance. Health insurers have mechanisms to prevent duplicate reimbursements when claims are filed with two companies for the same expense; when spouses are covered by each other's insurers, however, the second insurer generally must pay the portion of the expense not reimbursed by the first company. Most employers find that health claims for a spouse or children are 2 to 2.5 times higher than average claims made by employees. When given the option under flex to spend benefit dollars in another area, many employees drop their duplicate health coverage. As a result, claims for dependent coverage also decline.

Second, "by educating employees about health costs, you reduce utilization of health care," says Kushner. "The employer is helping move the employee from being a passive recipient of health benefits to a knowledgeable consumer."

Third, flex also helps small companies save money by forcing them for the first time to get involved in health-plan design and financing, says Kushner. "Small employers are used to buying medical plans off the shelf. But flex allows them to tailor-make their plans."

These factors can add up to real savings on health expenditures, says Kushner, citing his own research. Over a nine-year period, some 200 of Kushner's small-business clients with cafeteria plans have experienced average annual health-care cost increases of 8.5 percent. Without flex, those same companies would have received average annual increases of 15.5 percent, based on price quotes from insurers, says Kushner. Among his clients, the average per-employee cost for health insurance under flex last year was $2,706, compared with a projected cost of $4,463 without flex. That amounts to a 39 percent cost advantage for flex over the nine-year period. (See the chart on Page 17.)

Results like that are hard to ignore. And as long-standing barriers continue to fall, experts predict that thousands more small companies will make the move to flex in the years ahead. Says Feltman: "By the middle of the decade, probably over half of all employers will have flex. By the end of the decade, I would think it would be almost a rarity for an employer not to have flex." NB

For More Information

Following are sources of additional information on flexible benefits programs:

BenefitAmerica Inc.
William Bennett, President
P.O. 1365
Columbia, S.C. 29202
1-800-441-7044

Benefit Innovations
J.R. Chipman, President
P.O. Box 5474
Missoula, Mont. 59806
(406) 542-0208

Employers Council on Flexible Compensation
927 15th St., N.W., Suite 1000
Washington, D.C. 20005
(202) 659-4300

Kushner & Company, Inc.
Gary Kushner, President
2121 Hudson Ave., Suite 101
Kalamazoo, Mich. 49008
(616) 342-1700

To order reprints of this article, see Page 61.

FINANCE

When Money Is No Object

For small firms especially, barter is a way to sell products and services, buy needed items, and reach new customers.

By Jordan E. Cohn and Steve Kaufman

When John Tanian tallied them up, his cash outlays for his accountant, lawyer, broadcast advertising, printing, and bodywork on his fleet of 175 rental cars totaled only $7,500 last year.

Tanian, owner of American Discount Rent-A-Car, in Framingham, Mass., estimates the retail cost for these services at $75,000. He kept his spending to a tenth of that amount through a venerable commercial concept, a practice as old as business itself—barter.

Tanian accepted payment for car rentals in "trade dollars," which are credits used instead of hard cash to purchase a range of goods and services. In return, he used those trade dollars to pay for the $75,000 worth of services. His only cash outlay was the $7,500 he paid to Bartermax, Inc., of Sharon, Mass., as commission for coordinating the exchanges. Of course, credits from a barter exchange, like cash or credit sales, are taxable.

Today's version of the commercial barter business started in Los Angeles in 1960, and since 1980 its growth has surged so fast that estimates of total transactions vary widely.

Bob Meyer, editor of *Barter News*, a trade journal published in Mission Viejo, Calif., says that in 1990 more than 175,000 businesses completed barter transactions valued at almost a billion dollars, up from $200 million in 1980.

The International Reciprocal Trade Association, a trade group based in Great Falls, Va., has an even higher estimate. It says 220,000 American companies last year conducted $5.3 billion worth of barter, compared with 140,000 companies that exchanged $3.3 billion worth of goods and services in 1985. Most of the participants are small businesses, but they also include McDonnell Douglas Helicopter Co., which recently dispensed $10 million worth of nuts, bolts, washers, and screws through barter.

Jordan E. Cohn is a writer in Marina Del Rey, Calif. Steve Kaufman is a business editor at the San Jose Mercury News, *in San Jose, Calif.*

Exchange companies are the lifeblood of barter. The companies usually consist of several hundred members, who swap goods and services with one another. The barter exchange coordinates the transactions.

Exchanges establish a system of trade credits that work like a form of currency. Members' accounts are credited when they render goods or services, and their accounts are debited when they obtain goods and services. The exchanges keep the accounts and expedite the flow of trade.



PHOTO: ©NICK FREEDMAN—BLACK STAR

Car-rental entrepreneur *John Tanian used barter to get $75,000 worth of services for $7,500.*

Exchanges make their money by charging one-time cash membership fees—generally $300 to $500—and by collecting 10 percent of the value of each deal in cash from the buyer or the seller, or half from each. When a business makes a barter sale, it receives trade dollars, which it can use to purchase goods and services from any member of the exchange. Members pay with trade cards, comparable to Visa or MasterCard, and the exchange sends them monthly statements detailing their activities.

The reputations of barter exchanges were sullied in the mid-1970s when some unsophisticated exchange owners inflated their currencies in a bid to attract extra business. One exchange owner, for example, artificially created 1,000 trade credits and gave them to a member advertising firm in a bid to attract new members. As a result, the member found itself with more trade credits than it could possibly spend. This type of behavior eventually killed the exchange.

The situation began to change in 1979 with the establishment of the International Reciprocal Trade Association (IRTA). Formed to foster the interests of the barter industry, IRTA works to institute professional standards concerning exchange operations. The association offers advice on establishing exchanges, and it provides software programs that teach exchange owners how to manage and market their businesses. "People in the industry no longer work in a vacuum," says Meyer of *Barter News*.

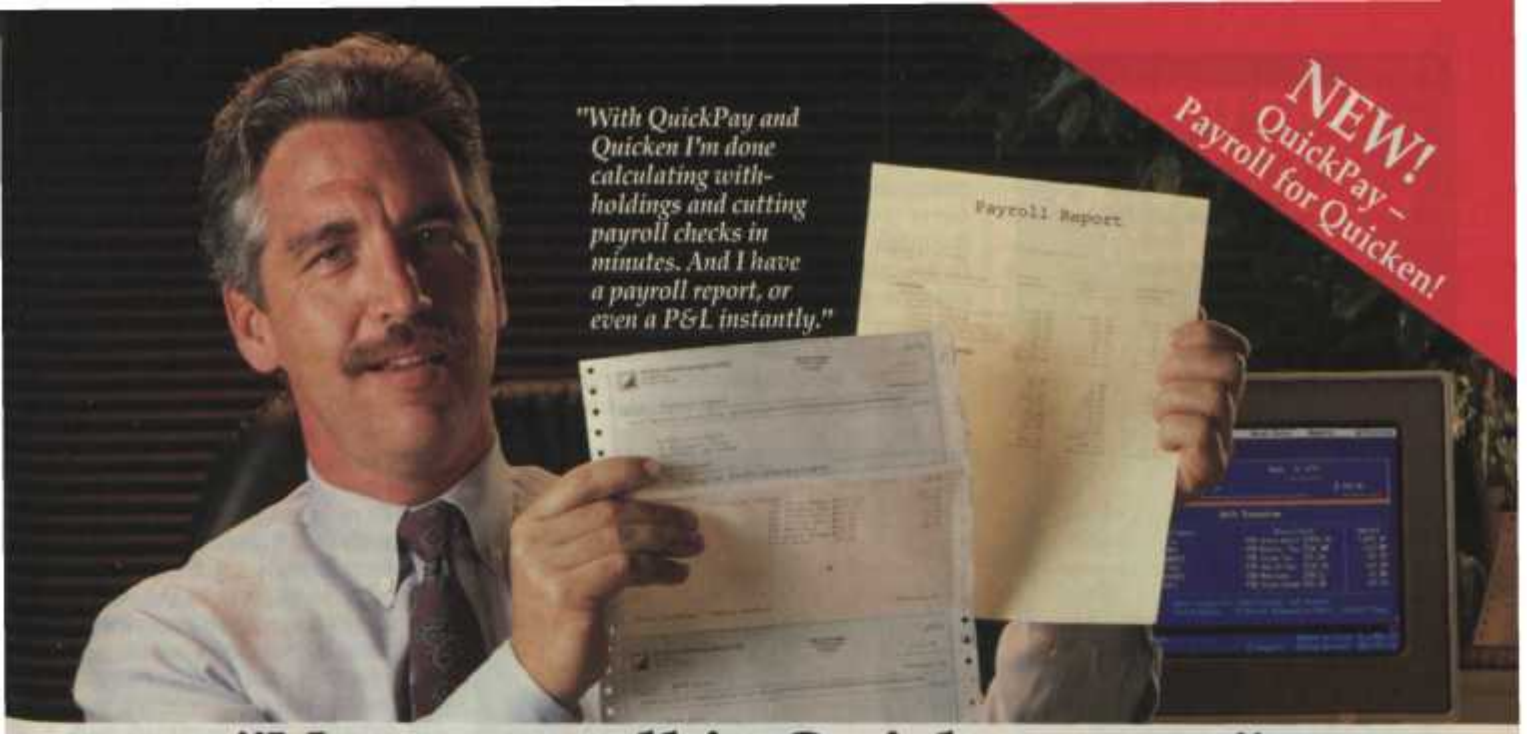
The industry also got a shot in the arm from the huge success of bartering during the 1984 Summer Olympics in Los Angeles. The Olympics relied on barter to swap licensing rights for $116 million worth of goods and services from 30 major corporations.

Today, there are more than 400 barter exchanges in the United States, and in the current recession, many of them have seen an unusually sharp increase in business.

At the Bay Area Barter Exchange Inc., in San Francisco, business in the first quarter of this year was up more than 20 percent over the same period last year. "We used to get almost all of our business from referrals," says Steven Goldbloom, the exchange's founder and president. "Now a day doesn't go by without people calling us and asking us what we do."

Exchanges find it easy these days to sign up new clients. "When cash is tight, companies are more open to alternative ways of doing business," says Susan Gruenwald, president of Chicago Barter Corp. "And barter is an option that both preserves cash and increases sales."

Today, many barter-exchange mem-



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– Rik Roberts, *small business owner*

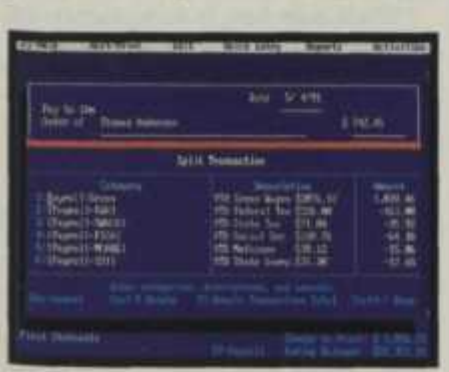
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bers say their only regret is that they can't barter even more. Michael Matthews, a San Francisco area optometrist, last year spent $8,500 in trade dollars for purchases through barter exchanges while he supplied $12,000 in trade dollars for services. Despite the imbalance, he says, he would like to double the volume of his barter revenue. Matthews says customers who pay for eye exams or contact lenses with barter fit smoothly into the regular flow of business, and he considers them "found" business.

Matthews has no qualms about his trade-credit surplus because he has plenty of ideas about how to spend it. Last year, he used barter to pay for the installation of a $2,000 air-ventilation system in one of his offices, and now he would like to put in a $10,000 air-conditioning system.

Business people are increasingly recognizing that barter is an effective way to gain customers or clients they might not have acquired if they didn't belong to the exchange. Matthews paid about $600 to join a barter exchange in 1986, and he pays 5 percent of each bartered transaction in cash to the exchange.

"The exchange, in effect, acts as a sales force for its members," says Al Kafka, chairman of Bartermax. The publicity tools include a monthly newsletter, a membership directory, promotional mailings, 24-hour phone lines, and "trade brokers." The brokers specialize in promoting a company's goods or services to other exchange members and finding outlets within the exchange where they can spend their trade dollars. "The exchange brings you business; they call you!" says Bill Johnson, who owns American Business Equipment, a copier retailing firm in Crystal Lake, Ill.

Bob Cook, president of Great Impressions, a San Francisco commercial printer, relies on barter, through the Bay Area Barter Exchange, for 20 percent of his sales. The revenue wouldn't be there, Cook says, if he couldn't trade his printing services for a wide array of goods and services.

"Essentially, barter works like a salesman for me, giving me access to hundreds of additional customers," Cook says. His payoffs have included a move into bigger quarters, $30,000 worth of leasehold improvements, two personal computers, and an office full of new furniture. Great Impressions also hosted a $4,000 Christmas party last December for 30 employees and customers at a local bed-and-breakfast inn participating in the barter exchange.

Consider John Tanian, for example, who has seen his car-rental revenues grow 20 percent a year for the past five years, most of it in barter business. "I never would have found that additional business without barter," he says. "The fact is, the members of the exchange have to spend their trade dollars, and they are really a captive audience for your product." Tanian adds that many customers refer their friends or associates to him, bringing in cash business.



PHOTO: ©BART BARTHOLOMEW

Rug maker *Celia Blum saved almost $100,000 in cash last year by using barter.*

Chicago Barter Corp.'s Gruenwald cites the example of Permaproof Pest Control, which recently bid on a project for a large hotel chain in Chicago. Permaproof's proposal stipulated that it would accept payment in both cash and hotel rooms. It got the job. "It's a real competitive advantage when you can say to a potential customer, 'You don't have to pay in cash,' " Gruenwald says.

On the other side of the equation, when companies utilize their trade dollars to make purchases, the advantage of barter can be summed up in one word: leverage. Goods and services are exchanged in barter at the retail price; discounting is rare. Say, for example, someone on an exchange buys a $10,000 copier from Johnson's American Business Equipment store. Working on gross margins of about 35 percent, Johnson's cost of goods is $6,500, but Johnson has received $10,000 in trade credits.

Barter makes more sense for some businesses than others, of course.

Service-oriented companies generally fare best with barter because their cost of doing extra business is marginal, and their overhead can usually support more business than they currently have.

Take, for example, a 100-room motel that normally rents only 75 rooms a night. On a typical night, the rest of those rooms produce no income. If some of those rooms are rented for $65 in barter dollars—and the motel pays $25 to clean the room and wash the sheets on the bed—that leaves a net profit of $40 in trade credits per room, minus any percentage paid to the exchange. The net profit, of course, doesn't include extra cash expenditures that a guest is likely to make in the motel's restaurant or bar.

Big-ticket discount retailers may benefit the least from barter, according to experts in the industry. A discount appliance dealer, for example, may work on only an 18 percent gross profit margin. That means the retailer keeps only $18 for each $100 worth of merchandise sold. In a barter transaction, perhaps 5 percent of each $100 would be paid in cash to the barter exchange, leaving the retailer with only a $13 profit. That may not be enough to justify the additional paperwork burden.

While barter makes sense in any economic climate, it is particularly attractive when cash is tight, such as during sluggish economic periods. Indeed, many exchanges have reported dramatic increases in their business during the current recession.

More businesses of all sizes may turn to barter simply because rising business debt loads may give them little choice. According to *Barter News*, American corporations in 1974 earmarked an average of 8 cents for each $1 in cash flow to service debt. That doubled by 1982, and now interest and other debt-related expenses are estimated to account for 28 cents of each dollar. "If the debt situation continues to grow, more companies will have to trade their goods and services for other goods and services—and that's barter," says Meyer.

"When cash flow is slow, barter dollars can fill the gap," says Sohrab Tebyanian, owner of Andriana Furs, in Chicago. Tebyanian estimates he did approximately $250,000, or 10 percent, of his business in trade last year. "Barter has helped me stay in business," he says.

Or consider Celia Blum of Celia, Inc., a Beverly Hills, Calif., manufacturer of custom area rugs. She has used barter over the past 10 years. Blum, a member of four exchanges, figures she saved almost $100,000 in cash last year by using trade. "Being able to use barter in lieu of cash has enabled me to do things as a small manufacturer that I wouldn't have been able to do otherwise"—including

acquiring a large advertising budget and giving gifts to her employees.

Such a cash-saving device can have a significant impact on the bottom line, of course. Jack Lindstrom of Lindstrom Kitchens, a kitchen remodeler in Aurora, Ill., says barter increases his profits 20 percent a year. But Lindstrom doesn't just use his trade dollars to buy other goods on the exchange; he also converts some to cash. In trade dollars, Lindstrom will buy $20,000 worth of plumbing supplies on the exchange, for example, and then he will resell the merchandise to his customers as part of a remodeling job. He'll profit because he's using his leveraged barter dollars and getting full retail price in return.

Lindstrom also uses barter for hotel rooms, concert tickets, and cruises.

The uses that creative entrepreneurs find for barter appear to be unlimited. For instance, Daniel DiMenna, president of Active Distributors Inc. of Milford, Conn., recently collected a bad debt through his exchange. The debtor's only asset was a supply of baseball cards. They didn't interest DiMenna, but his exchange could use them, so he accepted the cards—canceling the debt—and then used his trade dollars to buy advertising.

The tax treatment of barter is straightforward. When a company is credited with trade dollars, by making a sale through an exchange, it's the equivalent, for tax purposes, of receiving cash, and the amount is included in gross income for the year in which it was received. On the other hand, all barter purchases for business-related purposes can be deducted or capitalized from gross income for the year in which they were spent.

The barter exchange is considered a third-party record keeper and will send its members a Form 1099B and a printout of its barter transactions during the year. So it's important to remember that, while barter arrangements can replace vast amounts of cash outlays, the Internal Revenue Service still uses its own standards in calculating the net result. NB

To order reprints of this article, see Page 61.

Pointers For Bartering

Here are some tips for getting your business into bartering:

Make sure you can use it. To determine whether barter makes sense for you, examine your marginal cost of doing business—the cost of handling more business without major new investments. If it's relatively low, barter is usually worthwhile.

Look for a national network. For the most part, barter exchanges are local because most of the goods and services that members want—printers, restaurants, professionals, copy shops, for example—are most conveniently provided within a limited geographical area. But it's also fun if you can use trade for out-of-state or out-of-country vacations.

Check out the exchange. Members are good sources of information. Ask how communicative the exchange is with its members and whether there is a broad range of goods and services available. Also, interview the staff you'd deal with at the exchange to make sure you can comfortably work with them.

Negotiate. Once you join an exchange, don't be shy about negotiating hard for the best prices you can get. If you want to rent a car, for example, first call several car-rental agencies outside the exchange to get a good idea of going rates. Use this information to make a deal with an exchange member.

Be flexible. You should be willing to change habits to avoid problems in spending trade credits. If you usually have car repairs done at a certain service station, for example, be willing to go to a mechanic elsewhere who belongs to the exchange.

Be aggressive. Don't be content to trade just to pay your business expenses. Businesses that go further—for example, using barter to increase advertising—might be able to generate substantially more cash business without paying cash to do so.

Don't overextend. Barter should be a supplement to, rather than a replacement for, your existing cash business. Susan Gruenwald, president of Chicago Barter Corp., notes that "if you sell goods on barter, you'll still have to spend cash to replace that inventory."

Remember Uncle Sam. Barter transactions, like cash or credit sales, are taxable. Firms must pay taxes on the value of credits from a barter exchange at the time the credits are issued, even if the firm may not book them as income until they are used.



REGULATION

Clean-Air Rules Affect Small Firms

The amended Clean Air Act could be costly for many firms that never saw their operations as pollution sources.

By Bradford McKee

You may not think your firm is a major source of air pollution, but the drastically toughened Clean Air Act might put you in that category.

The 1990 amendments to that law greatly lowered the threshold defining "major" emission sources, thereby subjecting thousands of smaller firms to air-quality regulation for the first time.

At the center of the law's provisions to cut pollution and smog are state operating and construction permits, which will be based on the monitoring of emissions at affected firms from various angles.

The U.S. Environmental Protection Agency (EPA) issued its first proposed guidelines for state air-quality permits in May. They are expected to be made final by November. After that, all the states—40 of which already monitor air quality—will prepare to enforce regulations that will be among the most complex that businesses have faced. Here is the expected schedule:

Nov. 1, 1993: Deadline for submission of state plans for establishing programs to issue air permits.

Nov. 1, 1994: Deadline for EPA acceptance or rejection of state air-permit plans. Those accepted take effect immediately.

1995: Within 12 months of the effective date of the state permitting program, all businesses subject to permitting requirements must apply for their air-quality permits.

Also in 1995, the EPA is to release its first emission standards for hazardous air pollutants. All emission standards are to be set by 2000.

1997: The first round of state permits should be in place at about 34,000 major emission sources nationwide.

If your firm will have to comply, you have at least three years to initiate procedures that could delay the arrival of the act's torrent of paperwork and its related costs. Some small companies could obtain a five-year reprieve after that. In addition, firms that cut emissions ahead of schedule may get an early-reduction credit, enabling them to put off full compliance for six years.



PHOTO: T. MICHAEL KEZA

Companies that *"pollute less pay less," says EPA official William Rosenberg.*

Small and midsized companies "should be starting to plan" for the more demanding Clean Air Act by devising less-polluting production methods and by shrinking ordinary emissions, says Mary Bernhard, manager of environmental affairs at the U.S. Chamber of Commerce.

But for many firms, she says, reducing emissions may mean major changes in raw materials or production methods. For example, paint manufacturers are working to reduce heavy metals such as lead and chromium in paints. Makers of fragrances are seeking new active ingredients in perfumes and colognes to replace those deemed harmful to air quality. Printers are getting rid of noxious press-cleaning solvents.

Some businesses, such as bakeries, furniture factories, and automobile paint shops, may need to retrofit plants with pollution-control equipment, such as catalytic converters or incinerators that burn off hydrocarbon emissions.

Many businesses are working to avoid air-quality permit fees, which will be tied to emissions volume. Simply put, says William G. Rosenberg, head of air-quality programs at the EPA, companies that "pollute less pay less fees."

Fees for operating permits, which will be issued by the states and renewed at least every five years, will start at $25 per ton of any targeted air pollutant, up to 4,000 tons each or $100,000 per pollutant. At least 189 substances will be regulated, including many commonly used in small businesses, such as hydrochloric acid and formaldehyde.

If your company emits 10 tons or more per year—or about 55 pounds a day—of the regulated pollutants, or 25 or more tons—137 or more pounds a day—of any combination of them, it is a "major" source and is subject to the most rigorous operating permits.

Also targeted are the elements of urban smog—carbon monoxide, nitrogen oxides, and particulate matter. Whether your firm's emissions of these elements make you a "major" source depends on whether your region's air pollution is rated as moderate, serious, severe, or extreme.

States probably will review a firm's operating permits every six months. If changes in your production process would create additional emissions between permit reviews, you must offset the additional emissions with equal or greater cuts in other emissions volume.

Small firms should start budgeting now for pollution-control equipment and possibly costlier alternative production methods, environmental analysts say. Collecting data for any one set of permits might cost up to $15,000, analysts say, and emissions-monitoring equipment might cost $10,000 to $50,000.

Firms should soon determine if they will be classified as a major source of any pollutants. Those that are not "major" sources will have to follow more generic "area" source rules, under which companies with relatively small emission levels of the same type may get collective air-quality permits.

Before implementing procedures for issuing permits, states are supposed to set up special help for small companies that have to comply with new clean-air regulations. During this easing-in period for the new rules, the EPA's Rosenberg says, the agency intends to smooth out the permit program before enforcing it with small firms.

Nonetheless, experts say, small businesses will find that the strengthened Clean Air Act presents some of the toughest regulatory demands they have ever encountered. NB

LESSONS OF LEADERSHIP

The Chef As Famous As His Customers

Wolfgang Puck, an Austrian coal miner's son, rules a $25 million gourmet empire from West Hollywood.

By Michael Barrier

When Wolfgang Puck was 14, his parents put him on a train that took him from Klagenfurt, in southern Austria, to another town a few miles away, where he was going to work as an apprentice in a hotel's kitchen. Young Wolfgang was evidently a bit of a klutz—he had already botched one job interview by stepping into the cakes that a bakery had left on the floor to cool—and as he left home, he recalls, "everyone told me I'm good for nothing."

After he had spent only a few days in the hotel's kitchen, peeling potatoes and dicing onions, the chef told him contemptuously to get out: "You'd better go home to your mother so she can breast-feed you for another year."

Instead, Puck hid out in the hotel's basement for two weeks, until the chef discovered him. "I was so scared," he says. "I couldn't go home." He spent hours on a bridge over a river running through the town, wondering if he should commit suicide.

Today, many thousands of people are profoundly grateful that he chose instead to work as an apprentice in another hotel's kitchen. Wolfgang Puck, a coal miner's son, has become America's most famous and influential chef. His formidable skills in the kitchen have given birth to a cluster of businesses whose revenues this year will probably be well above $25 million. As he turns 42 in July, he can survey a culinary empire that includes three restaurants (soon to be four) in Southern California, another in San Francisco, a frozen-food company, and a brewery.

His influence as a chef extends far beyond his own restaurants. Through cookbooks, a video, and his frequent appearances on ABC television's "Good Morning America," he has become a familiar smiling face to millions of Americans who have never set foot in those restaurants. Moreover, "Spago clones"—restaurants aping the menu and decor of Spago, Puck's flagship restaurant in West Hollywood—have opened all across the U.S. The odds are good that any restaurant with an open kitchen and a wood-burning oven owes its existence to Spago.

Puck first won acclaim for bringing the sophistication of traditional French cuisine to what used to be considered much humbler fare—most famously his pizzas, which bear such toppings as duck sausage, smoked salmon, and golden caviar. Beyond that, he has broken ground by freely mixing elements from different ethnic cuisines. At Chinois on Main, his Santa Monica restaurant, the dishes are basically Chinese in form, but highly eclectic in every other way.

Puck took his first big step toward his current eminence in 1967, when he left Austria to take a job in a French hotel. He worked his way up through the kitchens of several prestigious French restaurants, including one in Monte Carlo, and finally wound up at Maxim's in

PHOTO: ©BART BARTHOLOMEW



Puck transformed *the lowly pizza into a gourmet sensation. Here he prepares one at Eureka, his combination brewery-restaurant.*

Paris. "They put you wherever they need you," he says of French chefs, so after a few years he had mastered every phase of a kitchen's operation.

In 1973, Puck was lured to the U.S. by the opportunity to work in a New York restaurant that the son of a Paris hotel owner was opening. But he could not stomach the menu—made up, Puck recalls, of "really simple bistro dishes," like onion soup—and began looking for another job. He took one in Indianapolis because "I was always into auto racing."

He thought that Indianapolis might have something in common with Monte Carlo, another home to famous auto races. Having learned otherwise, he had to work in Indianapolis for a while anyway, because he didn't have the money to pay his hotel bill.

The company that owned the Indianapolis restaurant owned another one in downtown Los Angeles, and Puck moved there in 1975. He also began working mornings at a restaurant called Ma Maison, and soon he became its full-time chef.

When he started work at Ma Maison, Puck recalls, "my first paycheck bounced. At least it was a good challenge to have." Perhaps two dozen customers would show up for lunch or dinner, he says, "or 10 people if it was a rainy day." By the time he left, about five years later, Ma Maison's fortunes had improved radically—Puck puts its monthly gross then at around $360,000—and it had become a sort of clubhouse for such Hollywood celebrities as Orson Welles.

Puck opened his own restaurant, Spago, in January 1982, in a former Russian-Armenian restaurant overlooking Sunset Boulevard.

He recalls that he had trouble raising money: "Sunset was such a bad street; we had hookers all over the place." He was running a cooking school next door to Ma Maison then, and "one day I announced that I really would like to open this restaurant, and if they know anybody who has some money, I'm going to need some."

His call was answered: Two dentists who admired his cooking took the lead in locating around 20 investors, who came up with $510,000. Puck got an equipment loan, too, but the money was barely enough.

"I had $10,000 or $12,000 left," he recalls, "and I put it in three different banks, and wrote checks on all of them," to give vendors the impression that he had more money than he did. The ruse was not needed: Spago turned a profit of $20,000 its first month.

When he opened Spago, Puck was going into business for himself for the first time, but, he says, "I did not feel that way." As a chef he always had to be aware of food costs; now he was aware of them as an owner, too.

As an owner, he spends part of his day in an office at Spago, but "you don't really manage a restaurant in the office," he says. "All the accountant does is give you information. And if he gives you the right information at the right time, you can do something about it in the kitchen"—by, for example, taking advantage of seasonal changes in food prices.

Puck's fans followed him to Spago from Ma Maison—thus Spago's instantaneous success. For much of 1982, he recalls, "it was so crazy we could not get a handle on it at all." If he told some of his famous customers that he did not have a table available for dinner, "they screamed at me and said they were never going to talk to me again." If he told them to come anyway, "they had to wait an hour for a table, then they screamed again. It was so hard."

If anything is truly difficult today, it is getting a table at one of Puck's restaurants at a popular time for dinner. Call weeks ahead for an 8:30 p.m. reservation at Spago, and, if you're lucky, you will be offered one at 6 or 10. But, the Hollywood grumbling goes, the favored few can call the same day and get a window table in the front room, at whatever time they choose.

It's true that he favors certain customers, Puck says—not out of snobbery or cliqueishness, but for sound business reasons. If he accepted advance bookings for popular times, he says, "the regular people would not get a table, and I would have to tell them to come at 6. They would say, 'Forget it,' and not come any more. So then you would only have tourists."

And, Puck says, even his regulars will call a few days ahead, if they're "people who have some sense, like [film director] Oliver Stone or [TV producer] Norman Lear."

Despite Spago's success, Puck did not easily raise money for a second restaurant. When he told some of his investors—to their disappointment—that he didn't want to open a second Spago, "I made a joke: 'If you don't like it, I'm just going to open a Chinese restaurant.' " His wife, Barbara Lazaroff—a designer who came up with Spago's airy, casual look—turned the joke into reality by telling him, "That would be great. I always wanted to design a Chinese restaurant."

Puck had to borrow $400,000, as well as take out an equipment loan, to open Chinois on Main in 1983. Profits did not come as quickly as before, but now Chinois is comfortably in the black. Puck says all four restaurants have gross profit margins between 5 and 12 percent, a normal range for the industry.

Puck is majority owner of both Spago and Chinois, and of Granita, the Mediterranean-themed restaurant that he and Lazaroff will open in Malibu this summer. He owns one-third of Postrio, which opened two years ago in the Prescott Hotel in San Francisco, and just 10 percent of Eureka, which opened last year in West Los Angeles.



PHOTO: © BART BARTHOLOMEW

Barbara Lazaroff, *Puck's wife—seen here with their son, Cameron—designed Eureka and his other three Los Angeles-area restaurants.*

California liquor law limited how much of Eureka he could own, because his 10 percent covers both the restaurant and the brewery that shares its premises and its name. Diners entering the restaurant pass huge vats where beer is brewed in accordance with the Bavarian purity rule (no ingredients except malt, hops, yeast, and water). Eureka, designed by Lazaroff as a whimsical factory, is the first Puck restaurant whose prices—perhaps $30 a person for dinner, versus $50 or more at Spago—and seating capacity of 180 give it something like mass appeal.

Eureka the restaurant has been turning a profit of $50,000 or more a month. Eureka the brewery so far has been what Puck calls "a big drain," losing around $70,000 a month. Even though Eureka's beers—a lager, a pilsener, and a dark beer—have been widely praised, they have not yet been a success at retail outlets. "Now I'm taking a little more charge of what will happen with the brewery," Puck says, "and what beer we're going to sell."

Another Puck venture is doing better. The Wolfgang Puck Food Co., which for 3½ years has been selling frozen versions of the pizzas that Puck invented for Spago, began turning a profit almost two years ago. Puck puts sales last year at $6 million, and he foresees sales of perhaps $8 million this year. He owns 15 percent of the company; he used to own 25 percent, but he had to give up equity to attract investors when the company was struggling.

If I ever have to just attend board meetings and try to find new locations and meet with developers, I might as well go back to Austria.

—Restaurateur Wolfgang Puck

From Puck's point of view, the frozen pizzas and Eureka beer share one great virtue: They offer the prospect of substantial returns to him, without requiring of him the intensive attention that he must give to the restaurants. Puck has of necessity delegated a great many kitchen duties to others, but he still spends six evenings a week at one or another of the restaurants.

In part, he says, he does that to reassure his customers about the food: "If they see me, they think it's better." But the restaurants are so different—they don't even buy food jointly—that Puck has no choice but to devote a lot of time to each. And time is what he has now run out of.

"I can't expand any more the way I did so far," he says. "If we expand, we have to make up one kind of place and try to make more of them—something like California Pizza Kitchen," the highly successful chain that offers pizzas frankly modeled on Puck's.

But Puck finds the thought of running a chain hopelessly boring: "If I ever have to just attend board meetings and try to find new locations and meet with developers, I might as well go back to Austria."

As much as Puck would like the security that would come with a successful chain—especially now that he and Lazaroff have a 2-year-old son, Cameron—he simply can't work himself into a lather over money, probably because he knows he will never lack for it. "I absolutely have no fear," he says. "I told my wife, if we ever get divorced, you can have all the restaurants. I really don't care. I know I can cook well enough that people will like the food, and come and eat." ■



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SMALL-BUSINESS COMPUTING

The Proof Is In The Presentation

By Lawrence Stevens



PHOTO: ROBERT HOLMGREN

Using desktop presentation *software, marketing executive Thomas Lewis takes 15 minutes to make transparencies that used to require days to produce.*

The success of an endeavor, many business people have discovered, may depend not just on the quality of a product or service but also on the elegance and clarity of the company's presentations to clients.

Whether it's a flip chart to sell insurance, a set of transparencies to persuade upper management to fund a project, or a slide show introducing a new product, a clear and well-organized presentation can be the sizzle that sells the steak.

Convinced of that, entrepreneurs have been known to spend hours with stick-on letters and poster board to make appealing presentations, and executives have used outside help to do the same for them.

There is an alternative, however. Desktop presentation software enables do-it-yourselfers and executives alike to create presentation materials in-house. Such software can not only save a company thousands of dollars on a single project but also can give it tighter control over such projects.

Another benefit of presentation software is the time it can save, as Thomas Lewis has discovered.

Lewis, marketing manager of Tri-Valley Growers, a San Francisco-based fruit and vegetable packing company, regularly promotes the company's services to growers and explains new procedures to employees. It used to take him days with a computer drawing program to create attractive, easy-to-read transparencies. If he didn't have time to create transparencies that way, he would have them produced on a typewriter, he says, but the results were usually "plain vanilla and dull."

Now, Lewis can produce his transparencies in minutes rather than days. By using his IBM PC computer and CA-Cricket Presents, a desktop presentation package from Computer Associates, in Garden City, N.Y., he says, "in about 15 minutes, I can make a very nice set of transparencies from my notes. If I have a couple of hours, I can prepare a great set."

The advantage that Lewis finds in desktop presentation software is its extensive selection of formatted frames, or templates. (In the parlance of desktop presentations, "frame" refers to each unit of the presentation—whether it's a transparency, or a slide, or a flip-chart page, or a computer screen.)

When Lewis used a word processor to create presentations, he had to manually change the type fonts and other design elements over and over until he found a format that looked pleasing to him. Not being a designer, he could not be sure his presentation was nice and clear—even after hours of trial and error.

On the other hand, with desktop presentation software, each template is already formatted with borders, bullets, colors, and font styles and sizes that have been professionally designed to look clear and handsome in combination. The template sets are arranged to provide continuity of style from frame to frame.

For the sake of simplicity, Lewis chose three template sets, which he uses again and again. After typing the text of his talk into a word processor, he uses his computer to insert key phrases of the speech into the templates. The text automatically takes on the alignment, type style, and other formatting elements of the template.

Like Lewis, Robert Lucas also must craft presentations carefully—and sometimes at the last minute. Lucas is project manager of Applied Computer Services, in Simi Valley, Calif. The company, with 45 employees, is a software developer that sells turnkey computer systems to credit unions. Lucas' presentations generally are for experts in finance or high technology, so he is concerned with producing high-quality

Free-lance writer Lawrence Stevens of Belchertown, Mass., specializes in business and technology subjects.

Smartly crafted flip charts, transparencies, and other presentation materials now can be done in minutes—not days—with desktop software.



Persuasion.

programs and maintaining control over production.

Lucas has been called upon to give presentations at annual meetings of Control Data Corp., the company that makes the hardware that his system runs on, and to professional associations of credit unions. He has to project a sophisticated, upscale image. Therefore, he takes his time in creating his presentations.

Before Lucas began using PowerPoint, a desktop presentation software package from Microsoft Corp., of Redmond, Wash., he would send scribbled notes to design firms describing the presentation frames he wanted them to create. But he didn't like relinquishing control of the creative process to anyone outside his company; he worried that someone would cause a delay.

Moreover, he says, the need to send the job out weeks before the presentation limited his ability to contribute to the process. "You're always getting new ideas, even the night before the meeting," Lucas says. "Now, if I get to work with a new idea in my head, I can usually make a frame or two in the minutes before the meeting begins."

For exceptionally important presentations, Lucas uses color slides rather than transparencies. A set of slides in a carousel projector can be easier to use than large transparencies requiring an overhead projector. PowerPoint's templates include color schemes, which, like text formatting, ensure that individual frames and the complete sets are attractive and harmonious. Lucas transmits his PowerPoint files over a modem to a service bureau, which returns finished slides in 24 to 72 hours.

Although presentation materials are often developed with other types of computer applications—word-processing, page-layout, graphics, and charting, to name a few—desktop presentation programs offer features that are helpful specifically for creating slides, transparencies, and flip charts. For example, you can specify that a common background such as a company logo is to appear on each frame you produce.

Desktop presentation programs also provide a storyboard—a screen or series of screens displaying all the slides in your presentation in greatly reduced form. This gives you an overview of the presentation, and it allows you to add, delete, or rearrange frames with a few keystrokes. In addition, the programs will generate a paper handout that contains up to six frames per page.

Presentation software packages also let you display the actual slide show on



PowerPoint.

your computer screen or through a projector attached to your computer. In this mode, all extraneous screen elements such as menus disappear. The frames are displayed singly on the screen, each one remaining for a specified time or until you hit a key on your computer. Most programs also allow you to add special visual effects for transitions between slides.

Lewis' CA-Cricket Presents program and Lucas' PowerPoint employ features common to most desktop presentation software packages. Some additional features available in other programs can help you in planning your presentation or add dazzle to your show.

Some packages, for example, include utilities that will create charts automatically from your tables. Make sure the one you buy has a spelling checker; most do. Few experiences are as embarrassing as projecting a misspelled word onto a large screen. Also, try to find a package that comes bundled with outlining software, which will help you organize your talk and provide the text that can be inserted into your presentation.

The following pointers can help you organize your presentation:

1. Start with an overview of the topic, then explain the main points, and conclude by delving into the specifics.

2. Begin with a promise that will keep the audience expectant. For example, one of your first frames might read, "By the end of this presentation, we will show you how you can increase profits by 50 percent."

3. Use the shortest words that will convey the points.

4. Display each frame only as long as needed for the point to sink in; don't give the audience time to daydream.

5. Limit text to seven or eight words per line and seven lines per frame.

6. The type should be large enough to make the slide readable from the back of the room.

7. Charts and graphs should be used to make points, not just to make a presentation more attractive.

8. To make tables more readable, eliminate extraneous text, and have plenty of white space.

9. Use one color for text, another for borders, another for background, and so on for each element. A second color can be used for emphasis in the text.

10. Tell the audience ahead of time that printed materials will be distributed afterward; audience members then won't feel they should take notes. NB

To order reprints of this article, see Page 61.



CA-Cricket Presents.

Family Business

When partners no longer see eye to eye; the key traits of a family enterprise; a spouse kept in the dark.

COMMENTARY

Avoiding "Business Divorce" Court

By Sharon Nelton

New York lawyer Harvey S. Feuerstein has seen more than his share of what he calls "business divorces." By that he means situations in which partners in a successful business no longer see eye to eye and each wants the other out.

Business divorce can be a "very emotional and trying experience, particularly when we're talking about a family," says Feuerstein, of the corporate law firm of Herrick, Feinstein.



PHOTO: AMANDA BALDRIDGE

Advice from a lawyer: Resolve the dispute yourself.

—Sharon Nelton

To be sure, there are many "amicable" separations—those resulting from the permanent disability of one shareholder or the desire of one to leave the company, for example. These transfers of power are handled in a reasonable fashion through such instruments as buy-sell agreements or estate plans. But in a business divorce, both parties are competent and want control of the business. Normally, he says, shareholder agreements don't cover such situations.

One possibility, Feuerstein suggests, is for partners to agree now that if they reach an impasse 10 or 20 years down the line, they will abide by a sort of "auction" process. One would make an offer to buy the other out, naming a price and other conditions, such as a noncompete clause. The other would have a predetermined number of days to accept the offer or make a counteroffer.

The problem, Feuerstein admits, is that 10 or 20 years from now, one partner may be in a better negotiating position than the other. Perhaps one just came into an inheritance and can outdo the other's offer, or over the years one partner has won the personal loyalty and goodwill of the customers.

In families, anything can happen. In one business, the owner over time made his son-in-law an equal partner. But the son-in-law divorced the owner's daughter, so angering the mother-in-law that she demanded her husband kick the younger man out.

The son-in-law, however, was a good businessman, and the father-in-law liked him. Represented by Feuerstein, the son-in-law was able to negotiate a buyout, and the father-in-law retired.

One couple made the mistake of trying to "legislate" that the children love each other, Feuerstein says. They left their three warring children equal shares of their business plus houses in a vacation compound that the children were prevented from renting or selling.

The parents had hoped the children would become "vacationing friends," says Feuerstein. Instead, they have involved one another in several lawsuits over the management of the business.

Litigation is expensive. Furthermore, Feuerstein points out, it can hurt the business. The family's dirty linen gets aired in front of employees and tax authorities. And when a partnership is seen as shaky, suppliers and customers get nervous and may look elsewhere.

What's the answer? Resolve the dispute yourself, before it gets to litigation, says Feuerstein. He adds that "a settlement that isn't quite everything that you wanted is better than the torrent of emotions that you're going to have to undergo by getting into a litigation mode with your partner."

The problem is, he says, that such advice works only among reasonable people. And sometimes people just aren't reasonable.

PLANNING

Have Patience For Process

By John L. Ward and Craig E. Aronoff

For two hours, the CEO listened as his brother improvised excuses and rationales for a self-serving position. "Bill," the leader said, "I want you to see that you are putting your desires ahead of what's best for the company and the family." At long last, Bill accepted his brother's conclusion. "OK, Jack, we'll do it your way," he conceded.

"Now that you understand the situation," Jack responded, "you go ahead and do it your way if you want to. What's important is that we understand and are honest with each other, that we deal with things realistically, and that we get along. After all, we will each control half the voting stock for about the next 20 years."

Observers of family businesses often ask: "Why do so many smart entrepreneurs have so many problems managing the relationships in their families?" The question suggests that business success requires the same talents and approaches as family success. In many ways that's true, but family and business contexts and processes have marked differences as well.

Entrepreneurs and executives need to appreciate and develop two fundamental traits critical to the family but often foreign to starting or building businesses. The first is patience; the second is attention to process.

In short, the business owner must learn to be "patient with process."

For most business owners, that goes against the grain. They've mastered the skills of decisiveness, taking action, taking personal control, and accomplishing tangible results. These skills were probably essential to the survival and success of the business—and can have great value helping the family in a crisis. But they can be dangerous if applied in all circumstances. In many family situations, patience and attention to process are crucial. Consider the following:

■ Good listening requires patience. All family members want to know that they can express their opinions and feel-

ings. When the leader too quickly interjects an opinion, other people are unable to think through the problem. They feel less important. Still, most business owners love to solve problems quickly.

■ Developing effective family communication skills takes time and practice. Families must invest countless hours to build such capability. When do business owners feel they have time for this?

■ Building a strong team of family successors—brothers, sisters, cousins, and in-laws—also requires concerted effort and patience. Families need lots of time together as adults to establish mature relationships and to build a strong foundation to fend off inevitable differences. Entrepreneurs are generally better decision makers than organization or team builders.

Listening skills, good communication,



ILLUSTRATION: DAVID CHEN

team building, constructive conflict resolution, and strong relationships don't just happen. There are no shortcuts—only a murky process of practice and setbacks, practice and more practice.

A successful family business was faced with a series of crucial decisions. In the past, various family members made independent decisions concerning their areas of responsibility. New circumstances, however, required consensus for the family to move forward through some conflicting goals.

In an approach unprecedented in the company's 65-year experience, five family members representing three generations spent at least 60 hours over six months with three professional advisers carefully working through all aspects of the challenge. No one was satisfied until all were satisfied.

Ultimately, consensus was reached. Financial, strategic, and organizational decisions were made, and actions were taken—all to ensure the family business's continuity for another generation. Perhaps most important, family leaders learned to work with each other in new ways—with much more patience and attention to process. They had practiced listening and communication skills, had committed themselves to conflict resolution, and had worked hard to build relationships and teamwork.

"We needed to do this years ago," said the septuagenarians, "but we were too busy."

"We need to do this from now on," said the youngest generation.

"That's our intention," promised the middle generation.

The positive outcomes of being patient with processes become evident only over long periods of time. Moreover, the outcomes are subjectively perceived rather than directly measurable.

To invest precious time in processes that yield unmeasurable results over indeterminate periods is not standard operating procedure for most business owners. Entrepreneurs often succeed by force of will and personal control. Neither approach works with the processes that make successful families.

Many entrepreneurs delegate the responsibility for managing these processes to their spouses. For the purposes of building a successful family business, however, personal involvement and participation cannot be delegated.

The demands of building a business compete with the time to learn effective family skills. Shortage of time can beget impatience. Impatience destroys family process.

Too often the truth of this paradox is realized too late. The business has been a success, but the family is unable to carry it on. The long-lasting family businesses we know have tremendous patience and believe that building a strong family is a process requiring investment of time, money, energy, and creativity. When the process works, the rewards speak for themselves. So does the pain when the process does not work.

Developing patience for process seems an unnatural step to many business owners. But, then, entrepreneurs usually have marched to a different drummer at least once before.



PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

July 16, Southern California

"Critical Issues Facing Family-Owned Companies," a series of seminars to be conducted throughout Southern California beginning July 16. For specific locations and additional dates, call Gerard Muttukumaru at (714) 944-2598, or write to the Center for Privately Owned Companies, 3350 Shelby St., Suite 200, Ontario, Calif. 91761.

July 18-21, Snowmass Village, Colo.

The Aspen Family Business Conference is built around the traits shared by successful families in business. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 201, Aspen, Colo. 81611; (303) 925-8555.

Aug. 4-17, Atlanta

The Family Business Academy is a "boot camp" for sons and daughters who aspire to family-business leadership. Registrants must be 20 to 35 years old. The second week is conducted at Unicoi State Park in the North Georgia Mountains. Contact the Kennesaw State College Family Business Forum at (404) 423-6045.

Aug. 8-10, Carmel, Calif.

"The Family Business Experience," a program for all family members, is led by family-business people. Write or call the Center for Entrepreneurial Management, 180 Varick St.—Penthouse, New York, N.Y. 10014-4606; (212) 633-0060.

August 25-29, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adult family members and their spouses. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

CASE STUDY

"Protected" Spouse Fears For Her Future

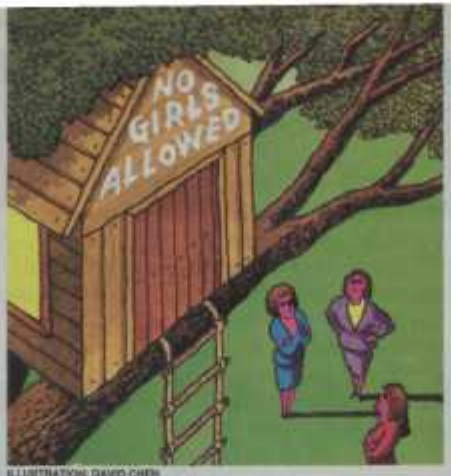


ILLUSTRATION: DAVID CHEN

Marcia Nesbitt is afraid. Her husband, Mike, and his two brothers own an industrial distribution company. Very successful, they have grown the business tenfold since they took over from their father 25 years ago.

Throughout the years, the Nesbitt brothers have maintained a strict policy: "No wives in the business." Marcia and her sisters-in-law have never liked the policy. Nevertheless, the brothers have kept their wives in ignorance about the business for a quarter of a century.

For the most part, Marcia was able to put the issue aside. She had children to raise. The business took most of Mike's time and energy. He and his brothers worked together well. There was always enough—even more than enough—money. To Marcia, issues outside the business seemed more important.

Now, however, everything has changed. The children are gone from the nest, and Marcia has a lot more time to consider her future. Some friction has developed between Mike and his brothers. Marcia has no idea what the problems are, but Mike's surliness when he comes home from the office is hard to ignore, as are the icy silences that have begun to punctuate family gatherings.

Worst of all, Mike is starting to talk about money problems and about cutting back on expenses. He hasn't actually said so, but Marcia believes the business is in trouble.

Mike is 65, and he'll be the first of the three brothers to retire. He and Marcia have never talked about that either. She has no idea how, or even if, he's going to get his money out of the business or what would happen to her if something happens to him.

Her questions are met with silence or are turned away with responses like, "Don't worry. You're going to be a rich widow." What can Marcia do?


PHOTO: ©BRUCE DAKE

A Foot In The Door

Donald J. Jonovic, president of Family Business Management Services, in Cleveland:

While this custom of male business owners keeping their wives in the dark like troublesome mushrooms seems to be dying out, Marcia's situation is unfortunately still common. As one woman complained: "My husband told me nothing about the business for 40 years. He thought he was protecting me from his worries. Since I didn't know what was going on, I imagined things that were far worse than the truth."

It's natural for a business owner to assume responsibility and to try to give the impression that everything is under control. If this "control" were real, women like Marcia could rest easy.

Trouble is, things usually *aren't* under control. The business could, in fact, be in trouble (not unusual for a company late in the second generation of ownership, as Mike's is). Worse, Mike has probably not made arrangements to protect his or Marcia's security. Her future could very well be threatened.

Trying to force the issue will surely be painful, possibly even explosive. Yet Marcia has a legitimate need to get some answers.

Marcia should begin with a firm but compassionate reassertion of her rightful place as Mike's partner. Initially she should concentrate on her future and Mike's as a couple in retirement. This issue can be pushed more easily than issues about the business. Also, it doesn't involve Mike's brothers.

Then it's a natural step from a retirement discussion to a conversation about how that retirement will be funded ("Just look at the inflation in greens fees!"). This discussion flows logically into issues of ownership transition and estate planning.

To continue living in the dark would be a terrible mistake for Marcia. She doesn't have to use a battering ram, however. A simple foot in the door will get things started. The rest should follow in its own time.


PHOTO: ©LAURA SIKES

Ignorance Isn't Bliss

Leslie Dashew Isaacs, a partner in Atlanta's Family Business Institute and an associate of the Bork Institute for Family Business, in Aspen, Colo.:

The policy against wives working in the business is not the issue here. It is true that business owners should include spouses in family-business planning and problem solving—involving them in these matters fosters communication, support of one another in difficult times, and avoidance of catastrophic surprises.

But the real issue that Marcia is facing is allowing herself to be uninformed and shortsighted. Let's look at several scenarios she might realistically encounter and the kind of information she may need:

Disability. What if Mike suffered a stroke and lost his ability to work? Does he have disability insurance? Would his brothers continue to pay him a salary? Have they developed a plan to address this possibility? How would Marcia care for Mike?

Death. If Mike died unexpectedly, would Marcia become his brothers' partner? Does she know about any shareholders' agreements or how the company is valued? What would *her* rights be? Would she have any liabilities—for example, did Mike personally guarantee any loans with their home as collateral? What insurance policies does Mike have?

Retirement. On a more optimistic note, if Mike retires, Marcia needs to consider more than financial security. She and Mike have operated fairly independently during their marriage. What kind of relationship does she want now? How much time does she want to share with Mike? Is she interested in more open communication than now exists?

Marcia has a responsibility to herself, to her children (who may not want to support her), and to her husband to be prepared for the contingencies she may face. Speaking with her husband and family advisers (attorney, consultants, financial planners) about her needs and Mike's, their future, and their resources should begin in earnest.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.
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FINANCE

An Uphill Fight For Bank Bill

The administration's plan to rewrite banking laws faces stiff opposition because it could alter not only banking but also financial services.

By Joan C. Szabo



PHOTO: ©RON EDMONDS—WIDE WORLD

Treasury Secretary Nicholas Brady *seeks support for the administration's plan to reform the U.S. banking industry.*

Treasury Secretary Nicholas F. Brady, pressing a plan for overhauling the nation's banking system, says, "If we expect to exert world economic leadership in the 21st century, we must have a modern, world-class financial-services system in our own country."

But an organization of smaller, locally owned banks declares: "We are opposed to most things in [the plan]."

An association representing larger banks maintains that "the industry needs modernization."

Yet in commenting on a key provision of the overhaul plan, a major insurance organization says, "We do not favor [permitting] banks to gain an insurance capacity."

Those sharply divergent views indicate why the Bush administration's sweeping plan for changes in the U.S. financial-services industry represents one of the most complex and controversial issues to come before Congress this year.

Contending the industry has failed to keep up with change both at home and on a global scale, the administration says the country's banking laws must be modernized to restore the industry to health.

The heart of the comprehensive, 300-page package would repeal an array of banking laws enacted over the past half-century.

These changes would:

- Limit the reach of deposit insurance.
- Allow eligible banks to enter, through affiliates, the securities, insurance, mutual-fund, and other financial-services businesses.
- Establish what the treasury secretary calls "a truly national banking system" by removing remaining barriers to interstate expansion by banks.
- Permit industrial and nonbank commercial firms to own companies that provide banking and other financial services.
- Restructure the existing regulatory system, reducing the number of control agencies from four to two.

When he makes presentations seeking support for the plan, Brady invariably sets the stage by noting that not one U.S. bank is ranked among the 25 largest banks in the world today, while just 20 years ago the top three banks were American and a total of seven of this country's financial institutions were in the top 25.

Brady says: "There is much to worry about in the banking world. The state of banking in the U.S. leaves taxpayers overexposed, consumers and businesses underserved, and the industry increasingly uncompetitive. As a result, banks are unable to effectively perform their important role in stimulating and sustaining economic growth."

The overhaul plan, known formally as the Financial Institutions Safety and Consumer Choice Act, nevertheless faces an uphill fight because of its potential impact on the competing sectors within the banking industry itself and in the larger financial-services industry.

Big banks, small banks, insurance companies, insurance agents, securities firms, and state governments all have a considerable stake in the legislative outcome.

The American Banking Association (ABA), which represents nearly all banks, draws this big picture: "Given the size and complexity of the legislation ... it is highly unlikely that any set of proposals will be totally acceptable either to particular institutions or to the industry as a whole."

And it is the Independent Bankers Association of America (IBAA), representing 6,000 community banks, that has gone on record as opposed to most things in the administration's plan.

Although the administration is heartened by its recent victory in the House Banking Subcommittee on Financial Institutions, which approved most of the comprehensive measure for full committee consideration, Capitol Hill observers say the plan still has a long way to go. Two other committees that are not expected to be as friendly to the measure must also consider it.

The White House is pressing for final action this year on the full package, but that appears unlikely. Congress has given top priority to heading off the bankruptcy of the federal deposit-insurance program and putting it on a sound basis for the long term. In addition, lawmakers want to make it easier for regulators to close troubled banks before they accumulate losses. These issues are so complex that Congress appears to be signaling that resolving them will suffice for major action on financial services this year.

The deposit-insurance program, administered by the Federal Deposit Insurance Corp. (FDIC), has been under much stress because of a surge in payouts caused by the increasing number of bank failures. Nearly 600 banks have failed in the past three years at a cost of $15.7 billion to the FDIC. The agency estimates that as many as 230 banks could fail in 1991 and 210 in 1992.

Federal deposit insurance now covers



PHOTO: T. MICHAEL KEZA

Each state has the best idea of what is going on in its economy and what kind of banking system is going to work best in that state.

—John Alderman, Independent Bankers Association of America

each account to $100,000, with no limit on the number of accounts eligible for protection within the banking system. It is also possible to increase coverage if an individual has a joint account, an IRA, Keogh, or a trust account. Thus, a married couple with a joint account and individual accounts in each spouse's name in one bank would qualify for $300,000 of coverage.

The administration's proposal would set a limit of $200,000—half in an ordinary account, half in a retirement account—on an individual's deposits in a single institution.

While a depositor could obtain protection to that limit in each of many banks, the administration's plan calls for a study of an eventual $200,000 limit per depositor.

The center of attention on Capitol Hill at the moment, however, is a proposal backed by Rep. Henry Gonzalez, D-Texas, the influential chairman of the House Banking, Finance and Urban Affairs Committee. His bill, H.R. 2094, would reform the deposit-insurance program and rescue the nearly depleted Bank Insurance Fund (BIF).

Gonzalez's measure, if enacted, would bolster the BIF by authorizing the FDIC to borrow up to $30 billion from the federal treasury to pay off accounts in banks that fail. The loans to the FDIC would be repaid over a number of years from the deposit-insurance premiums that banks pay. The bill also would require tighter supervision of banks and faster action against banks likely to become insolvent.

The administration's measure also would strengthen the BIF and would require early intervention.

Supporters of a comprehensive approach to banking reform say that limiting action to deposit insurance is like treating a symptom, not the underlying problem. They trace the drain on the deposit-insurance reserves to basic weaknesses that require overall correction.

While a majority of the country's 12,000 banks are in good health, about 1,000 are not. Additional banks will join the ranks of those ailing institutions if a comprehensive package is not enacted soon, say supporters of a broad overhaul plan.

"We think the industry needs modernization, and it needs consolidation to return to profitability and a safe and competitive future," says Fritz Elmendorf, vice president for communications of the Consumer Bankers Association. The association, based in Arlington, Va., represents more than 900 federally insured banks and thrift institutions that focus on consumer business.

In addition, supporters say that Treasury's proposal would give bank customers greater levels of choice and convenience by allowing them to buy financially related services from their banks and that it would help alleviate the credit crunch by providing more capital for lending.

Interstate banking also would help reduce operating costs, the proposal's backers say.

Although banks may operate across state lines now, doing so involves cumbersome arrangements. When one bank buys another in a different state, it has to set up new, independent management to satisfy federal regulations. That would no longer be necessary with nationwide interstate branching.

A number of large banks agree that the Treasury package is urgently needed, but there is opposition on a wide

Banking Laws Targeted For Change By Treasury's Reform Proposal

The Treasury Department's banking-reform bill, the Financial Institutions Safety and Consumer Choice Act of 1991, would repeal a number of long-standing banking laws, some of which date back to the late 1920s and early 1930s.

Here are some of the most significant laws that would be affected by enactment of the Treasury measure:

The McFadden Act of 1927. The law prohibits federally chartered banks from expanding across state lines, and it allows states to determine whether banks can open additional branches within a state. The law gives national banks almost equal footing with state banks. It would be repealed if the administration's bill is enacted.

The Glass-Steagall Banking Act of 1933. This law separates the functions of commercial banking and investment banking; it is based on the principle that an institution charged with the protection of customers' money should not engage in what is considered risky and speculative business. It also prohibits investment banking firms from accepting deposits.

The Glass-Steagall Act permits national banks to establish branches anywhere in a state where state law permits state banks to do so, thus effectively establishing state boundaries as limits for bank branching and authorizing state legislatures to determine their states' banking structures.

The law will be overturned if the Treasury's package is passed.

The Bank Holding Company Act of 1956. It established the Federal Reserve as the sole regulatory authority to control multibank holding-company formation and expansion and to allow bank holding-company subsidiaries to engage in nonbanking activities that are "closely related to banking." It defined bank holding companies as those that own or control two or more banks.

The Douglas Amendment to the Banking Holding Company Act prohibits multibank holding companies from acquiring any out-of-state bank unless the law of that state allows such entry. The Treasury proposal calls for repeal of the Douglas Amendment three years after enactment of the Treasury package.



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We have long held the position that the present separation between banking and other forms of commerce should be maintained.

—Gary Hughes, American Council of Life Insurance

range of grounds. Neither the ABA nor the IBAA supports the proposed limits on deposit insurance.

John Alderman, regulatory counsel for the IBAA, cites the policy—which has been invoked by federal regulators—that some banks are "too big to fail" and must be kept from going under by the federal government, even if it means support beyond present deposit-insurance limitations.

"We don't like cutting deposit insurance," Alderman says. "Our guys aren't too big to fail, and we are worried that if they enact these deposit-insurance cutbacks, money is going to flow right out of our banks and into big banks because they are too big to fail. That would not be beneficial because our members service Main Street business."

Henry Kaufman, president of Henry Kaufman & Co., New York, and a prominent member of the financial community, also says he opposes this policy: "By keeping in force the 'too-big-to-fail' doctrine, the Treasury proposal favors big banks and indirectly exposes the deposit-insurance fund to potential losses."

In addition, limiting deposit-insurance coverage would increase depositors' fears at a time when restoring public confidence in the banking system is imperative, say critics of the proposal.

The American Bankers Association endorses the concept of the comprehensive reform bill, but a spokesperson for the trade group says that "there are elements of the Treasury package that we won't be able to endorse." One of those elements is the proposal to limit deposit insurance. The ABA represents 95 percent of the commercial banking industry in the United States, banks ranging in size from the smallest to the very largest.

The U.S. Chamber of Commerce also holds that it would be a mistake to limit deposit-insurance coverage. "That would harm many businesses and create a great deal of uncertainty about the future," says William MacReynolds, director of monetary and financial affairs for the business federation. "Instead, it is important to figure out a way to provide deposit-insurance coverage at current levels, perhaps even at expanded levels, by some way that does not require taxpayer support," he says.

MacReynolds suggests a "cross-guarantee system." Under such a plan, banks insure other banks and place a limited amount of their capital at risk. In addition, deposit insurance should be priced accurately, says MacReynolds. "Currently, all banks, whether well-run or poorly run, pay the same premium. As a result, government-run deposit insurance favors the losers.

"Also, the government cannot accurately assess riskiness in financial institutions, let alone any other business operation. The pricing problem must be fixed by introducing private-market pricing."

While deposit insurance has become the focus of the debate over bank-law revisions, opposition has developed to other aspects of the Treasury Department's plan as well.

One aspect is the proposal to permit banks to open branches across state lines. Alderman, the spokesman for the independent bankers' group, says: "We think it will allow large money-center banks to go into states where they are now not welcomed. They will go right into the most lucrative areas, loot them by offering somewhat better interest rates, and the money will be gone. They won't do much local lending." He contends that interstate branching will simply exacerbate today's credit crunch.

"Each state has the best idea of what is going on in its economy and what kind of banking system is going to work best in that state," Alderman says. "It works a lot better if the feds just stay out of it."

But CBA's Elmendorf disagrees. "Large banks are looking for profitable places to make loans," he says. "They are lending more to small firms and consumers. That is because many of their biggest customers have dried up. So they will not ignore the credit needs of local areas. They will be looking for credit opportunities."

The ABA says interstate banking and branching is inevitable and the question is actually one of timing and method.

Treasury's banking-reform package also calls for a new federal banking agency—the Office of Depository Institutions Supervision—to be established within the Treasury Department to supervise all national banks and their holding companies. The Federal Reserve would supervise all state-chartered banks and their holding companies, taking this regulatory function away from the FDIC. Under the proposal, states would continue to charter, regulate, and supervise state banks.

Also lining up in opposition to the comprehensive package are insurance companies and agents as well as securities firms, maintaining that banks should not be allowed to enter the insurance and securities industries.

In explaining the inclusion of a provision allowing such activities by banks, Treasury Secretary Brady has said:

"Out-of-date laws must be adapted to permit well-capitalized banks to reclaim the competitive opportunities they have lost to changing markets. Banks with expertise in other financial services should be allowed to provide them for consumers. ... In order to strengthen the banking system, new rules will permit financial affiliates for well-capitalized banks. A new financial-services holding company structure will permit a single company to own affiliates engaged in banking, securities, mutual funds, and insurance."

Strong opposition to that proposal has come from the insurance and securities industries. "We have long held the position that the present separation between banking and other forms of commerce should be maintained," says Gary Hughes, chief counsel for securities and banking at the American Council of Life Insurance, which represents about 600 life-insurance companies. "So we do not favor the Treasury proposal that would permit banks to gain an insurance capacity through the use of affiliates."

If banks are allowed to sell insurance and other financial-services products, consumers seeking loans will be vulnerable to suggestions that they buy the bank's products, says David A. Winston, chairman of the Alliance for Separation of Banking and Insurance (ASBI), a legislative coalition of five insurance agents' associations. "Such tie-ins are anti-competitive and illegal, but there is evidence the practice is widespread in the area of credit insurance," he says.

The coalition includes the Indepen-

dent Insurance Agents of America, the National Association of Casualty & Surety Agents, the National Association of Life Underwriters, the National Association of Professional Insurance Agents, and the National Association of Surety Bond Producers.

Insurance agents also worry that banks will use the federal deposit-insurance system to gain a foothold over other providers of financial services. "If banks are granted new powers, they will be able to use their access to deposit insurance to lure new customers," says Winston. "Customers also would be confused and easily misled into believing that insurance, securities, and other financial services sold by a bank are federally insured."

In an effort to make the proposal more palatable, Treasury proposed in its package that affiliated banking and nonbanking activities be conducted only through distinct subsidiaries of a holding company separated by "fire walls" that would insulate the banking activities from the other financial services.

Only strong banks would be allowed to affiliate with other types of financial institutions. There would be stringent penalties for noncompliance.

But critics argue that such fire walls could be ineffective. For any bank to "tie" its credit power to its nonbanking activities is a "fearsome threat," which fire walls can't preclude, says Gedale B. Horowitz, chairman of the Securities Industry Association. SIA, the securities industry's trade association, represents about 600 brokerage and investment banking firms in the U.S. and Canada.

If a comprehensive banking-reform package is enacted, a number of interested parties would favor creation of a more level playing field in the financial-services industry. "If we can solve the deposit-insurance problem so that banks no longer receive a special subsidy from the federal government, then there is no reason why banks should be treated differently from any other business," says MacReynolds. "In this way, banks would be free to compete with other financial-services providers on a level playing field."

Arthur Urciuoli, senior vice president and director of business financial services for Merrill Lynch, agrees. "We are perfectly happy to have banks do everything and anything we do as long as we can do everything and anything banks do," he says. "On that playing field, the better-managed firms, regardless of industry, will do reasonably well. I would be happy to compete with any bank in the country on that basis."

Whether the Bush administration can build the necessary consensus to pass a comprehensive reform measure is still a matter of debate. Most observers believe that lawmakers are more inclined to take the easier route and enact a limited bill at this time.

The consequences of such an approach may be hazardous to some sectors of the banking industry, says Samuel Baptista, president of the Financial Services Council, a broad-based coalition of U.S. financial institutions that support comprehensive reform of the financial-services industry. He says: "If Congress simply passes a narrow bill, all it has done at that point is to increase the cost to the depository institution without addressing the profitability side of the equation. Such a step might exacerbate banking problems and force a taxpayer bailout down the road."

Despite the appeals for prompt action from the administration and some sectors of the banking and financial-services industries, current indications are that the issue is so complex and so divisive that Congress will approach it very cautiously and that the result will be one of the most familiar products of the legislative process—a compromise. NB

We are perfectly happy to have banks do everything and anything we do as long as we can do everything and anything banks do.

—Arthur Urciuoli, Merrill Lynch

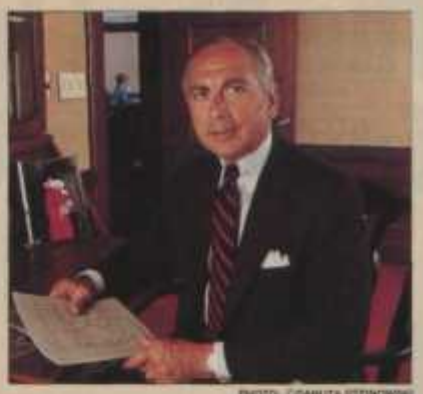


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FOOD SAFETY

The Food Industry Takes The Offensive

Food growers and processors are counterattacking allegations that some of their products are unsafe.

By David Warner

Erick Leadbeater, a second-generation owner of an apple orchard in Contoocook, N.H., lost $50,000 on his 1988 crop. "That's a significant amount of money for a small operation," he says.

Throughout the apple industry in 1989, when the '88 crop was being marketed, losses such as Leadbeater's added up to even more significant amounts—an estimated $100 million to $150 million.

The losses resulted from a steep drop in consumption of apples because of a campaign—spearheaded by a Hollywood actress—that attempted to link cancer and Alar, a chemical used to regulate the growth of apples.

Says Derl Derr, president of the International Apple Institute, in McLean, Va.: "The Alar scare was devastating to our industry."

Widespread coverage of the issue in the news media compounded the problem for growers and processors. "You would see pictures of apples with skulls and crossbones over them," Leadbeater says. "Those of us in the industry were damned confused. Here we are looking at science that says Alar is not a problem, and yet the evening news is telling us it is."

Alar not only was not the threat claimed by those attacking it, Leadbeater says, but it also "allowed us to greatly reduce the application of pesticides," because it kept the fruit on the trees despite pest damage that would have required additional spraying.

The Alar controversy arose after the Natural Resources Defense Council, an environmental group, reported that using Alar on foods could cause cancer, especially in children.

Following tests by the Environmental Protection Agency (EPA) and others that found no basis for linking Alar and human cancer, researchers produced a tumor in one mouse after EPA ordered them to increase the dosage to 22,000 times the normal maximum exposure for children.

That was the basis of the 1988 Alar scare, and the EPA ordered its use on agricultural products phased out, beginning in 1985. The chemical was being used on very few crops by 1989.

In the instance of Alar, scientific reality was overtaken by emotionalism, which was pumped up by actress Meryl Streep's warning in congressional hearings and in television appearances that Alar-treated apples could cause cancer in children.

The incident was one of several in recent years in which allegations of actual or possible harm to the public from supposedly unsafe food received massive news-media coverage.

Various consumer and environmental groups have declared that the use of pesticides and other chemicals on and in foods has become excessive, posing the risk of cancer and other grave consequences to consumers.

Food scientists, the food industry, and the federal agencies that enforce the nation's food-safety laws disagree. The United States, they say, has the safest food in the world.

The food supply "is certainly safe," says Dr. Lester Crawford, administrator of the U.S. Department of Agriculture's Food Safety and Inspection Service, "and it is far safer now than it was when I first came into food regulation [in the mid-1970s]."

A 1989 report endorsed by 14 scientific societies representing more than 100,000 microbiologists, toxicologists, veterinarians, and food scientists concluded: "The perception that the food supply is unsafe is not supported by scientific data; the American food supply is amongst [sic] the safest in the world."

Says John R. Cady, president of the National Food Processors Association: "The basic reason that a food person is in business is to sell food. The industry goes to great pains and great lengths to ensure the safety of the food-supply system. That's our livelihood."



PHOTO: © BOB MAHONEY

Food scientist *Joseph Hotchkiss of Cornell University says technology has outdated current public policy on use of chemicals in the food supply.*

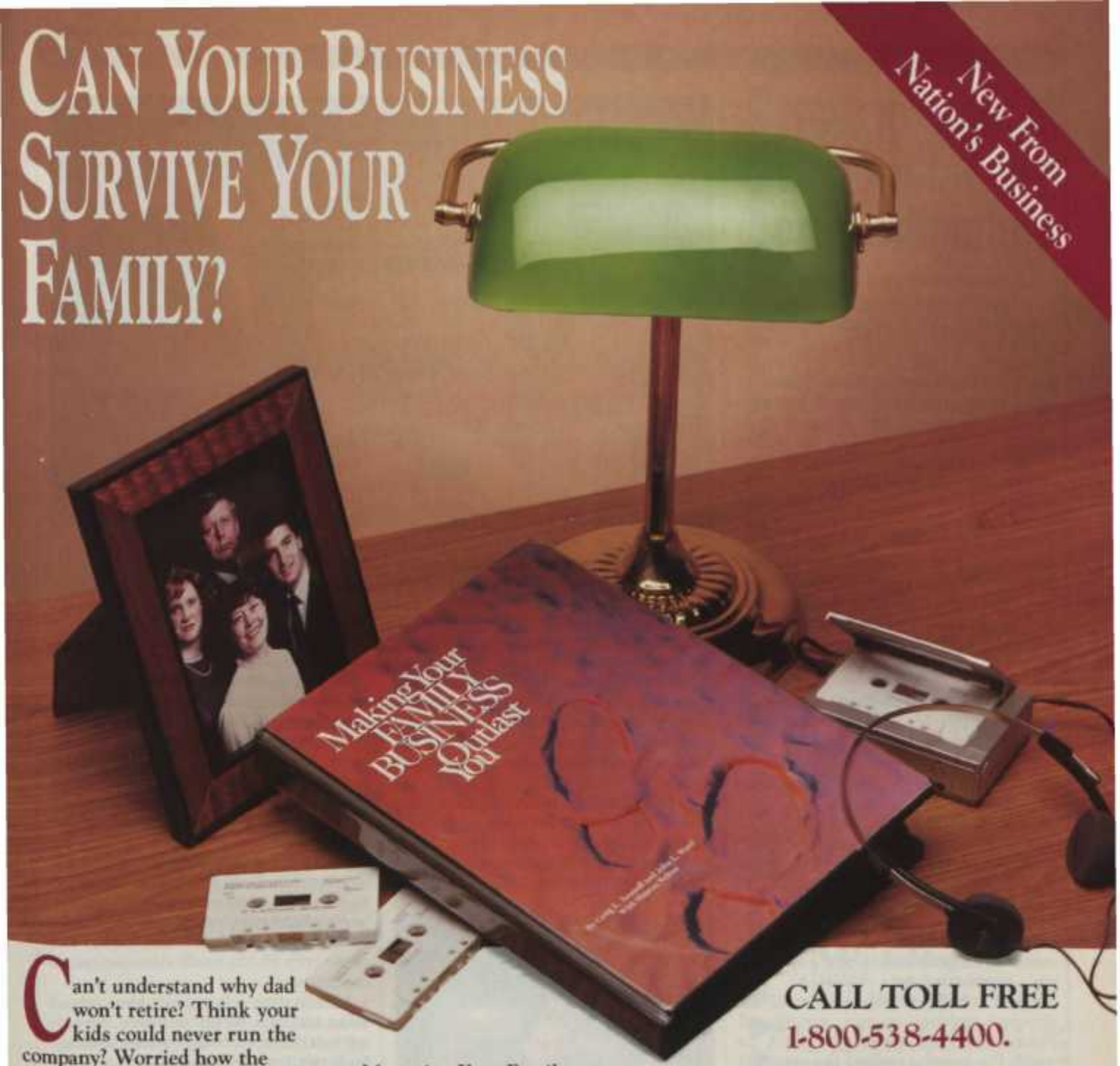
The U.S. food system accounts for nearly 20 percent of the nation's gross national product. U.S. consumers spend more than a half-trillion dollars a year on food. The U.S. is the world's largest food exporter; in 1988, food exports exceeded imports by $14.5 billion. Nearly one in five U.S. jobs is food-related, and there are more than 600,000 food-related businesses in this country.

Much of the public concern about food safety centers on the use of chemicals that include pesticides, fungicides, herbicides, and rodenticides.

The public's anxiety over such chemicals persists even though there is, at most, "very, very poor" epidemiological

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evidence that they cause cancer or other illnesses in consumers or in farmers or others who regularly work with the substances, says Joseph Hotchkiss, a food scientist and pesticides expert at Cornell University. "It's just hard to come up with any evidence at all that pesticides as food residues are a significant health hazard."

In a recently released study, *Residues in Food*, the U.S. Food and Drug Administration (FDA) concluded that 99 percent of domestic food showed no residues or only "safe residues well within government-set limits." Those limits are set by the Environmental Protection Agency and have a built-in safety margin. Based on rodent studies, the limit is usually set 100 times lower than the level that will produce between a 1-in-1-million and 1-in-10,000 lifetime chance of contracting cancer.

Since the Alar incident, the food industry has gone on the offensive in promoting its safety efforts. It is educating the public and the news media about food production, including chemical use, and it is citing research by food scientists and federal agencies that monitor food safety.

The U.S. Department of Agriculture and the FDA are just two of the 12 federal agencies that enforce 35 laws dealing with food. (See the chart on Page 45.) They spend nearly $1 billion a year on food safety.

Food producers also are taking steps to allay public fears by using new-generation chemicals. But they face a dilemma. While the newer chemicals could be safer than the products that they would replace, there is a federal roadblock. It's called the Delaney Clause, which is an amendment to the Federal Food, Drug and Cosmetic Act (FFDCA). The FFDCA mandates tolerance levels for chemical residues on raw agricultural commodities and allows the EPA to weigh the benefits against the potential cancer risks when considering a chemical's use. But the Delaney Clause bans chemicals in or on processed foods if any amount of a suspected carcinogenic residue is found.

Because chemicals used before Delaney's adoption in 1958 are exempt from the statute, carcinogenic substances in use before that time can remain in use, while newer, safer substitutes may be banned, says Stuart Hardy, manager of agriculture policy for the U.S. Chamber of Commerce.

Moreover, the clause does not allow EPA to consider any benefits of a chemical whose residues remain in or on processed foods. Thus, for example, although ethylene dibromide (EDB) kills grain mold that is 1,000 times more carcinogenic than EDB used at maximum tolerance levels, EPA banned the chemical because trace amounts of it remained in some processed foods.



PHOTO: T. MICHAEL KEZA

The food industry *goes to "great lengths" to ensure safety, says John R. Cady, president of the National Food Processors Association.*

With technology available to detect some carcinogenic residues in parts per quintillion (1,000,000,000,000,000,000), all man-made chemicals could be prohibited for use on foods under the Delaney Clause.

Says Cornell's Hotchkiss: "The Delaney Clause, in my opinion, is just not good public policy in concert with what we know about chemical carcinogenesis today. It is now outdated public policy for our current scientific understanding."

What is known is that most man-made pesticides control naturally occurring compounds. Without man-made chemicals to control pests, fruits and vegetables manufacture their own chemical defenses, which can be much more carcinogenic.

But some groups, such as the Natural Resources Defense Council, are clinging to the Delaney Clause and calling for the elimination of all man-made chemicals on any food, raw or processed. Such a move would raise consumers' food costs by an estimated $40 billion a year because crop yields would decrease, some experts say.

Eliminating chemicals also would make the food supply less safe, according to a recent industry-sponsored study by agriculture economists.



PHOTO: ERICK FREEDMAN—BLACK STAR

The Alar scare *cost apple grower Erick Leadbeater about $50,000.*

Congress may consider amending the Delaney Clause when it takes up reauthorization of the Federal Insecticide, Fungicide and Rodenticide Act—the nation's pesticide law—later this year, according to Rep. Charles Stenholm, D-Texas, a member of the House Agriculture Committee.

Although the fight over man-made chemical residues is billed as the main event by consumer advocates, microbiological food risks such as salmonella are no less important and may now be attracting more public attention, as they should, say food-safety experts. Daniel Fung, a food microbiologist at Kansas State University, says, "The microbial problem is small but more urgent than the chemical problem."

According to the Centers for Disease

Principal Food-Safety Agencies

Agency	Responsibilities	1989 Spending (Millions)
Food and Drug Administration	All food (except meat and poultry); animal drugs and feeds; safety of food animals	$ 158
Food Safety and Inspection Service	Meat and poultry	$ 457
Agricultural Marketing Service	Egg products; commodity standardization, inspection, grading	$ 97
Grain Inspection Service	Grains	$ 42
National Marine Fisheries Service	Seafood	$ 12
Environmental Protection Agency	Pesticide registration and tolerances	$ 55

Source: General Accounting Office

Control in Atlanta, there are an estimated 6 million cases of food-related illness in the United States each year—one for every 45,000 meals. Most involve little more than an upset stomach and are generally the result of improper handling, storage, or preparation of food by consumers after purchase.

Nevertheless, the food industry is spending millions of dollars on efforts to reduce food-related illnesses. The measures include better packaging, advanced production methods that reduce the risks of contamination during processing and that extend shelf life, public education about food storage and preparation, and new ways to monitor microbiological contaminants.

Food-production businesses follow good manufacturing practices (GMP), a regimen of sanitation of equipment and facilities established by the FDA, the Agriculture Department, and the food industry. Federal and state inspectors monitor procedures and products.

In addition, many companies in the food industry are adopting a new quality-control system known as HACCP, which stands for "hazard analysis, critical control points."

This system, first used to ensure the safety of food for manned U.S. space flights, requires the monitoring of food processes and procedures from storage to preparation to packing and shipping.

Another method of reducing microbiological contamination is the use of low-level doses of radiation to kill insects on grains and fruits, extend the shelf life of products, and control disease-causing illnesses such as salmonella, says Edward Josephson, adjunct professor of food science and nutrition at the University of Rhode Island.

But public fears about radiation have made food processors disinclined to use the technology. Overcoming public misperceptions about irradiated food, pesticide residues, and microbiological contamination may be the food industry's No. 1 challenge. "What we have to do is not educate people on safety, but educate them on risk," says Cornell's Hotchkiss. "We have to understand that everything has a risk to it."

Says Cady of the National Food Processors Association: "We're trying to educate people on things that are very hard for the average person to understand in the areas of risk and tolerances, because that's what hurt us with the Alar situation. Science was not allowed to be used. We want to make sure here at NFPA, using our science and technology, that that will never be allowed to happen again."

With the food industry under constant pressure to produce larger quantities of food to feed a burgeoning population at low costs to consumers, it seems likely that new scares, some relating to animal drugs and food biotechnology, will arise unless the industry, food scientists, and government regulators can convince the public that America's food supply is virtually risk-free.

"We've got the best food supply; we're going to make it better," says Rep. Stenholm. "I hope we can build a consensus among consumers that making it better, assuring safe food, means [making decisions] based on science, not on the personal whims or beliefs of various groups that organize and gain their notoriety by suggesting that there's something wrong with our system." NB

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Women In Business

Ideas, insights, and information to help women compete and succeed in the marketplace.

EXPORTING

New Help For Selling Abroad

Are you interested in exporting your products and services but unsure how to go about it? To help American women entrepreneurs do business overseas, five Washington women business owners, all with international experience, have formed a company called BEHRS International. The coalition's name is taken from the last initials of its founders:

Katherine M. Bulow is a former assistant secretary of commerce and a former deputy administrator of the Small Business Administration. She is president of The Bulow Group, which helps small and midsized businesses develop export markets.

Nancy Ellis is president of Kinsman Associates, Inc., an international business and energy consulting firm. She is a former assistant to the administrator of the Agency for International Development.

Barbara Hayward is president of Hayward Loach International, which provides Washington representation and public-relations services to international companies and organizations. Hayward is also vice chairman of Republicans Abroad, an organization of Republican Party members in 70 countries overseas.

Gillian Rudd, former president of the National Association of Women Business Owners, is president of The Rudd Co., a marketing and management consulting firm. She also is international vice president of an international organization of women entrepreneurs, Les Femmes Chefs D'Entreprises Mondiales.

Nancy Harvey Steorts, former chairman of the U.S. Consumer Product Safety Commission, is president of Nancy Harvey Steorts International, a management consulting firm.

BEHRS offers three levels of services:

- For $250, you can be entered in its database for a year and receive information on international opportunities tailored to your business. Initiating contacts abroad and other subsequent steps are up to you.
- For $5,000 a year, you can become part of a consortium in your service or product line—health equipment, for example. BEHRS will identify opportunities for your group, represent it at trade fairs, assist in obtaining financing, and provide other services.
- For $25,000, you can hire BEHRS exclusively for all these services, including sewing up complete deals, for a year.

The company also expects to offer seminars, conferences, and other educational services and hopes to help women entrepreneurs obtain subcontracts with larger corporations.

BEHRS' first initiative has been a program called Women Organized for the Reconstruction of Kuwait, or WORK. Through the program, BEHRS is seeking to ensure that women-owned U.S. businesses have access to the millions of dollars in contracts negotiated to rebuild Kuwait.

Gutted houses in Kuwait need to be refurbished, and there is a need for consumer products, health-care products, and education and training, Bulow says. "Those are areas where American women entrepreneurs are fairly skilled."

But Kuwait, says Rudd, is just the "carrot that will pull [women] into the international marketplace." She and her partners contend there are opportunities for women business owners throughout the Persian Gulf region, in southeast Asia, and in other parts of the world.

"Women have some special talents going into the international marketplace," Rudd adds. "They're quieter sellers, on the whole. They listen and sell. ... It works extremely well in the Japanese culture, and I think it works very well in other cultures, too."

Rudd says women business owners are seriously interested in getting involved in overseas business, "but most of them are very nervous about doing it because they haven't had the opportunities that other businesses may have had, and we want to provide them with that opportunity."

The BEHRS Group principals say they will also be able to help women entrepreneurs identify barter opportunities and overcome currency exchange problems.

They also expect to assist women in the importing of goods and services. "I see a lot of two-way business coming out of this," says Rudd.

For more information, contact BEHRS International at 1155 Connecticut Ave., N.W., Suite 601, Washington, D.C. 20036; (202) 862-3954.

—Sharon Nelton



PHOTO: T. MICHAEL KEZA

BEHRS International's founders: *Gillian Rudd, Nancy Ellis, Nancy Harvey Steorts, Katherine M. Bulow, and Barbara Hayward. Their first initiative is called Women Organized for the Reconstruction of Kuwait, or WORK.*

AWARDS

Aim For The Prize

For women in business, it's a dream come true: money for nothing.

Well, almost nothing. Kathleen Jordan of Concord, Mass., had to write a business plan and buy a stamp. Now, thanks to *New Woman* magazine, she has $15,000 to create Allergy Alternatives, an enterprise that offers cooking classes, counseling, and courses to help people with food allergies.

Jordan is just one of the many women who are benefiting from sponsored competitions designed for women in business. Here's a rundown on three nationally prominent programs:

Avon Women Of Enterprise Awards

Avon Products and the U.S. Small Business Administration annually co-sponsor a search for five outstanding women entrepreneurs. To qualify, a woman must be profitably self-employed for five years, despite significant hardships.

A typical winner is Charlotte Brannstrom of Greater Flint Temporaries, Inc., in Flint, Mich., an entrepreneur who persevered despite the death of her oldest daughter in a car crash and the breakup of her marriage.

Award: A trip to New York City and $1,000.

To enter: Send a request for an application and a stamped (87 cents), self-addressed 9x12 envelope to Women of Enterprise Awards, Avon Products, Inc., 9 W. 57th St., New York, N.Y. 10019. Application forms will be available Nov. 1.

Deadline: Jan. 31, 1992.

Clairol Mentor Program

To honor aspiring businesswomen and provide them with mentors, Clairol pairs the winning contestants—the "mentees"— with successful career women in 11 different fields.



PHOTO: ERICK FRIEDMAN—BLACK STAR

Her "recipe"—*a business plan—was a prize winner for Kathleen Jordan.*

In one such pairing, Carolyn Carter, vice president of Grey Advertising in New York, is a mentor for Kelly Dunn, a music-video promotions assistant for Capitol Records in Hollywood, Calif.

Dunn says that Carter has been "really terrific. She's introduced me to contacts at Grey and MTV and given me so much advice and encouragement. ... Someday I'd like to come back here—as a mentor for someone else."

The program is open to any woman who is a U.S. citizen at least 22 years old and who has been employed for at least one year.

Award: Each winner receives $1,000 and a year's worth of mentoring.

To enter: Write a statement of no more than 100 words describing the value of a good mentor relationship. Send the entry to Clairol Mentor Program, c/o National Women's Economic Alliance Foundation, 1440 New York Ave., N.W., Suite 300, Washington, D.C. 20005.

Deadline: Oct. 31, 1991.

"New Woman, New Business"

New Woman magazine's competition salutes "the courage and self-reliance of today's women entrepreneurs." Marcy McNaghten, assistant editor, says one of last year's contestants started a dairy with her divorce settlement. "She had custody of the cow."

Second-place winner Kathleen Jordan, who created the company for those with food allergies, says: "It's amazing how much I accomplished for Allergy Alternatives just since I entered the contest. It was such a valuable motivation for me."

Award: $25,000 first prize; $15,000 second prize; and $10,000 third prize.

To enter: Watch for the contest announcement in the February 1992 issue of *New Woman*. Rules are yet to be determined. Last year's entry required the submission of a business plan for an original business idea.

Deadline: Spring 1992.

Virginia Maida Randall

RESOURCES

Leadership Training For Women Owners

A leadership program for women business owners will be held at Babson College, in Wellesley, Mass., Sept. 20-22.

Called the Leadership Institute for Women Business Owners, the program will focus on business tactics for tough times. Topics include dealing with your bank in a tight economy, strategic thinking, and managing market expansion.

The program is co-sponsored by Babson's Center for Entrepreneurial Studies and the National Foundation for Women Business Owners, the educational arm of the National Association of Women Business Owners.

The cost is $1,825 for NAWBO members and $1,995 for nonmembers. Contact the foundation at 1331 Pennsylvania Ave., N.W., Suite 909, Washington, D.C. 20004; (202) 347-0978.

SBA Expands Its Mentoring Program

The U.S. Small Business Administration has expanded its mentoring program, the Women's Network for Entrepreneurial Training (WNET), to all 50 states.

Launched three years ago, WNET matches experienced women business owners with women who have been in business at least one year and are ready to expand. For information on becoming a mentor or a protegée, call SBA's Office of Women's Business Ownership at (202) 205-6673.

EDUCATION

From Basic Math To Trigonometry

Some employers are taking education into their own hands. One of them is Hach Company, Inc., an analytical chemical firm headquartered in Loveland, Colo.

When the 750-employee company found that hourly workers couldn't do the mathematics required for some jobs, says Katherine Hach, chairman of the board, it started a class in basic math—at 6 in the morning. She says that although other training is offered on company time, the company felt basic math should be on the employee's own time.

After the in-plant class was initiated early last year, Hach says, the employees "got so excited about mathematics" that they wanted more. The company added Algebra I, then Algebra II. Soon, says Hach, "every single person in the machine shop will have been through trigonometry."

The math programs are among the company's newer educational efforts. The 40 classes offered include blueprint reading, word processing, and writing skills. In keeping with its goal of being a world-class manufacturer, it also offers a course named "World Class Manufacturing." The company also provides some reimbursement for college.

By the way, Hach says, if the employees who need the mathematics skills don't take basic math, they get a spelling lesson: E-X-I-T. ■

MANAGING

When Silence Is Golden

Your answer to a reference check can be costly to your firm. Here are some tips on what to say—and when to say nothing.

By Ross H. Fishman

The personnel director of a nearby company tells you she wants to know about Jones, a former employee of yours who has applied to her for a job.

Jones gave you a pretty hard time, and you want to protect another employer from the same experience. So you are as frank as possible. You tell her that Jones was a chronic griper who skipped work for dubious reasons and that you always felt that he was a bit of a lush who wobbled back from long lunches. When you have finished, you might think that you have done her company a big favor.

But your well-intentioned warning could wind up costing your own firm big dollars. In increasing numbers, job seekers who believe their employment chances have been hurt by former bosses are bringing defamation suits.

Generally, defamation is defined as an injury to the reputation or good name of another that tends to bring that person into disrepute. It can be divided into two categories, with similar elements of proof: libel, which is defamatory written communication; and slander, which is defamatory speech.

Employers can be held liable for defamation in two general areas: in providing written or oral job references to prospective employers; and in disseminating information, including the reason for discharge, to those who do not need to have this information.

During a libel or slander trial, the employee—the plaintiff—will attempt to prove that his or her reputation has been injured by a defamatory statement made by the employer.

According to Gregory J. Malovance, an employment-relations attorney at Winston & Strawn, a national law firm based in Chicago, the employer—the defendant—can defend by trying to prove that the alleged statement:

- was not made;
- was true;
- was not defamatory;
- was made with the employee's consent;
- or was made by someone acting outside his or her authority and thus only that person is liable for any adverse judgment.

In most states, an employer is protected by a "qualified privilege," Malovance explains. "This means that the employer can avoid liability if he acted in good faith, had an interest or duty to disseminate the information, and did so in a proper manner and to proper parties only." In many instances, however, these types of questions can only be decided by a judge or jury at trial.

"Moreover, even where you have established all of these points," says Malovance, "the employee can rebut this privilege by claiming that the employer abused the privilege or made the statements with 'actual malice.' Therefore, the employer still assumes a significant cost in defending his actions" and risks an unfavorable outcome.

The law also protects the right of the employer to express his personal opinion—as distinguished from statements of fact—regarding the employee, provided the opinion was clearly designated as such, was given without intent to harm, or otherwise may be given an innocent construction. Malovance admits that it is hard to predict how a jury will evaluate intent.

So, given the costs and uncertainties of litigation, Carey M. Stein, vice president and general counsel of Hartmarx, the Chicago-based manufacturer of men's clothing, is representative of most executives concerned with this issue when he says, "it is better that your personnel procedures help you avoid lawsuits rather than win them." Stein advises Hartmarx's human-relations division on personnel-related issues.

As an employer, you can reduce potential liability for defamation actions by

Ross H. Fishman is a lawyer in Chicago with Winston & Strawn.

ILLUSTRATIONS: RICHARD PARRI



Escorting him *to the door made him look bad, one ex-employee alleged.*

instituting strict and consistent company policies.

It is widely believed that the safest and most conservative position is to refuse to provide references. (If there is no specific agreement with the employees that says you have to provide references, there is generally no legal requirement to provide information, regardless of the circumstances surrounding the employee's termination or resignation.) However, even this course of action is not risk-free because employers may now be held liable under an emerging theory of "negligent referral" by failing to disclose certain types of information.

Malovance says that if you choose to respond to such inquiries, the following strategies may prove helpful:

- Designate one person or department to respond, and advise all other employees that any comments they might make could subject them to *personal* liability.
- Insist that all inquiries and responses be made in writing, so there can be no dispute as to the exact language used, and keep file copies.
- Discuss the employee's termination or resignation with the employee in an exit interview, with another designated person present. Obtain the employee's consent to tape the conversation. If necessary, draft a mutually acceptable reference, and have the employee agree in writing to its accuracy and to its distribution in response to requests. If you cannot obtain such employee cooperation, limit the reference to facts you can prove without explanation.
- To any request for additional information, state only that company policy forbids additional disclosures.
- Keep information concerning employment terminations confidential, informing only those persons within the organization with a need to know.
- Do not adopt a selective reference policy in which you provide favorable references where warranted but decline to respond where negative comments would have to be made. An employee's knowledge of such a policy could trigger a legal challenge the same way that an explicitly adverse reference could.

No matter how many safeguards you establish, however, be prepared for the unexpected. Even routine dismissal procedures can backfire if not handled with tact. In one recent case, an employee was terminated for inadequate work and, in keeping with company policy, was escorted to the door. He sued the employer for defamation, claiming that the act of shepherding him to the door implied that he had been accused of wrongdoing. Silly? The judge who let him go forward with the case didn't think so. The plaintiff is asking the jury for damages of $11 million. The case is pending.



Have a third person *present for exit interviews with terminated employees.*

Of course, the surest way to avoid having to deal with former employees who were problems is to hire no problem employees in the first place.

But even the best-run organizations must take preventive measures to keep troublesome employees from causing further trouble as former employees.

"The best advice I can offer," says Hartmarx's Stein, "is to make sure that the people who are in charge of responding to these questions be alert for problem areas and use common sense." NB

To order reprints of this article, see Page 61.

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To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Marcia J. Pear

Preventing Bone Loss—There's Good News

Calcium. Exercise. Vitamin D. Estrogen. These preventive strategies have long been the smart ways to forestall osteoporosis, the often crippling brittle-bone disease that affects 24 million Americans.

Nevertheless, one-third to one-half of all women suffer from some degree of osteoporosis after menopause. The disease causes 1.5 million fractures annually, most often of the spine, and it can result in "dowager's hump," the stooped posture commonly seen in elderly women.

Osteoporosis means, literally, "porous bones." Bone is not solid, but is continually being rebuilt, or remodeled, at various sites in your skeleton. A given area—say, the bones in the big toe of your right foot—is remodeled about every three months.

Dr. Robert Lindsay, professor of clinical medicine at Columbia University, in New York, extends this architectural metaphor to describe the onset of osteoporosis:

"After menopause, 'cross pieces' of skeleton [microscopic bones] disintegrate and aren't replaced, so you lose both bone mass and muscle. This alters the architecture of your body, leading to classic fractures in the spine, hip, and wrist."

Women who go into menopause with too little bone are at greatest risk of osteoporosis, because bone density decreases with age.

"Women entering menopause with normal bone density stand a 15 percent chance of sustaining a hip fracture," Lindsay says. "But a woman with below-average bone mass runs a 40 percent risk of fracture."

Diagnosing the disease is fairly simple. According to Lindsay, a bone-density scan is "more accurate than a cholesterol test for heart disease, yet less invasive than a dental X-ray."

Several options now in the vanguard of osteoporosis treatment may not only halt pain and deformity but also help restore skeletal strength.

The first, a drug known as etidronate, binds to bone crystal, thereby preventing bone loss.

In one of the largest studies of osteoporosis ever conducted, doctors at seven U.S. medical centers have found that spinal bones became denser and the rate of new vertebral fractures fell by more than half during a two-year treatment with etidronate.



PHOTO: ©ARTHUR SIROTSKY—MEDICAL IMAGES

Testing for *osteoporosis with a bone-density scan is simple and accurate.*

Currently the drug is approved by the Food and Drug Administration only for the treatment of a bone disorder called Paget's disease—although doctors are free to prescribe an already approved drug for a new use.

Dr. Nelson B. Watts, associate professor of medicine at Emory University School of Medicine, in Atlanta, leads the ongoing study, which involves more than 400 women between menopause and age 75. While he and his colleagues have found etidronate to be safe, effective, and easy to use, he emphasizes the need for caution.

"We don't want to stop the bone-rebuilding process," Watts says, so the women take etidronate for only a few days at a time, at regular intervals, with periods in between for the body to do its normal bone remodeling. In the current study, the women have been given etidronate in eight two-week cycles spread over two years.

Other promising treatments include calcitonin, a hormone extracted from salmon that also occurs naturally in the body, and sodium fluoride, a drug similar to the substance that helps prevent tooth decay.

Calcitonin, though FDA-approved, is currently available in the U.S. only in an expensive, injectable form. A nasal spray is awaiting approval.

Also, while studies show that it increases bone density, it is not known whether that translates into a reduced rate of new fractures.

Sodium fluoride may help people with osteoporosis by stimulating new bone formation. But it fails the fracture test. Possibly, suggests Lindsay, this is because "the new bone created through use of the drug may be inferior in structure and strength to bone that is formed naturally."

What can you do today to reduce your risk of osteoporosis?

- Watch your diet. "There's evidence that high-protein, low-calorie diets increase urinary calcium loss," says Lindsay. "Cyclic diets are also bad, because the metabolic changes that occur from losing, gaining, and losing weight wreak havoc on your entire body."
- Reduce or eliminate your use of alcohol, caffeine, and cigarettes.
- Maintain reasonable physical activity. Lindsay recommends participation in competitive sports like tennis and racquetball—because they usually must be scheduled. "Busy careerists are more likely to exercise if it's on their agenda," he says.
- Address menstrual problems as soon as possible, particularly if they appear to be stress-related. "If you have fewer than normal periods now, you're at risk of osteoporosis later, because you're in a state of relative estrogen deprivation," Lindsay explains. "You want to build up as much bone as possible before you reach menopause."

Finally, he counsels, remember that osteoporosis is "an asymptomatic disease, so the time to think about it is when you're young, because today we have good agents for prevention, diagnosis, and treatment." NB

Marcia J. Pear is a writer specializing in health issues and principal of Pear Communications, a San Francisco marketing communications firm.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

HOME SECURITY

Defensive Tactics For Thwarting The Thieves

Local police departments say balmy summer weather can lull homeowners into relaxing their security defenses. Windows and doors are left unlocked, and many homes are left unguarded while the residents are away for weekends or longer periods.

In considering security arrangements, you should be aware that homeowners-insurance companies sometimes give premium discounts if a home is equipped with an alarm system.

"If you have a highly valued stamp, coin, or other such irreplaceable collection and you feel you must keep it at home," says Joseph Mele of Louisville University's National Crime Prevention Institute, "get a good alarm system from an established, reputable company that can keep it serviced."

Systems range from $2,000 to $4,000 installed.

Mele also makes the observation that "no alarm is really effective if your home is not otherwise secured with strong doors, deadbolt locks [installed by a locksmith], protected windows, and other such common-sense burglar-proofing measures."

As a matter of fact, some homeowners slip into a false sense of security, believing their "castles" are impregnable just because they have the latest in wiring wizardry.

Lyman Neal, a crime-prevention officer in Montgomery County, Md., says: "You get an alarm system, and you think that's it. . . . You're safe, and you forget about locking windows and doors or having valuables around where they can be seen."

An effective alarm system, says crime-prevention instructor Mele, "should have magnetic contacts on doors and windows or window screens with alarm wires embedded in them to provide early warning."



PHOTO: FRANCES BORCHARDT

Home security *can slip in summer.*

To detect the presence of any intruder who penetrates part of a security system and gets inside the house, Mele adds, "you should have passive, infrared sensors that screen large areas." ■

DEBT MANAGEMENT

Making Mortgage Magic: Pay Now To Save Later

The challenge: Find a supersafe investment that returns 10 percent or more tax-free.

The secret: Make extra payments into your home mortgage every month.

It's a little-known fact that most homeowners can increase the dollar amount of their mortgage payments in order to pay down the principal ahead of schedule.

As the principal shrinks, you pay less and less interest on the balance and build up your home-equity investment a lot faster.

And there's never any tax on the "extra" money that winds up in your pocket from reducing the total interest you pay.

Marc Eisenson describes it in *The Banker's Secret* (Villard Books), his book on various ways to make a lot of money over the years without paying any additional tax.

"Only 5 percent of the nation's mortgage holders are taking advantage of this secret," Eisenson says, and the reason that many more don't do so is "because they don't understand it. . . . They think they might lose some of their tax deductions on the interest paid, or they think they're not allowed to prepay."

On the matter of losing tax deductions, Eisenson says you make only 28 to 31 cents on the dollar (depending on your tax bracket) with a deduction on the interest.

You make 69 to 72 cents on the dollar when you reduce the interest you have to pay to the lender, he says.

Most lenders will let you prepay—some gladly. If your lender balks, be persistent; the lender usually gives in to such a request in order to keep the customer's business.

You don't have to prepay a lot to begin to build equity in your account. Eisenson's book gives this example:

"On a $75,000, 30-year mortgage written at 10 percent interest, the total payback will be almost $237,000. That's nearly $162,000 in interest charges on a $75,000 loan—more than twice what was borrowed.

"If you make an additional $100-a-month payment to the lender, you'll end up $78,000 richer, and the mortgage will be paid off 12 1/2 years sooner."

Eisenson bases his figures on a 30-year mortgage. But the average homeowner stays in one place for only seven or eight years.

"The system still works," Eisenson says, "because you're really involved in a serial mortgage, building equity as you move along."

Some practiced prepayers, according to Eisenson, build equity by putting in a fixed amount every month, while others round up their checks to the highest even number.

It's probably a good idea to tell your lender that you're going to be putting in extra money to pay down the principal. Some companies even have a space for this in their payment coupons. Otherwise, for the first few months, you can write a little note that clearly states what you want done with the extra money.

Eisenson's book, which has prepayment charts that show savings under a wide variety of options, is available for $14.95 plus $3.00 for shipping from Good Advice Press, Box 78, Elizaville, N.Y. 12523. ■



Peter Weaver is a Washington-based columnist on personal finance.

INVESTING

Tax-Exempt Bonds: The Last Bastion

Maybe the memory of April 15th still lingers. You found that last year's deficit-reduction plan and its tax-law changes nudged you into a higher bracket and whittled away some deductions.

If that happened, you might consider shifting some of your investment capital into tax-exempt bonds. "They're the last shelter that's commonly available," says Richard Ciccarone, director of fixed-income research for Kemper Securities.

Most brokerage firms and tax-exempt mutual funds have tax-exempt and taxable-yield-equivalent charts to show you how much you would make, in your tax bracket, with either one.

Some examples: If you are in the 28 percent bracket ($34,001 to $82,150 joint return), a 7 percent tax-exempt bond would be the equivalent of a taxable security paying 9.72 percent. If you are in the 31 percent bracket ($82,151 and above joint return), the taxable bond equivalent would be 10.14 percent.

It's always a good idea to discuss any major purchase of tax-exempt bonds with your tax adviser.

If you can invest $25,000 or more, you can buy individual bonds from a broker. This way, you might get a bond that is exempt from federal taxes as well as state and local taxes. But one bond doesn't give you any diversification.

"For the average investor," Ciccarone advises, "tax-exempt municipal-bond funds are probably the best bet." This way, you may lose a little bit on the management fee, but you gain a lot in diversification and flexibility (you can get in and out with a phone call).

With individual bonds or mutual funds, you have to take care in selecting securities that are top-rated by the Standard and Poor's and Moody's rating services.



PHOTO: T. MICHAEL KEZA

Municipal bonds *can be useful for construction—and investing.*

"Certain municipalities and some states are under a lot more financial stress than others," says Hildy Richelson, president of Scarsdale Investment Group and co-author of *Income Without Taxes: An Insider's Guide to Tax-Exempt Bonds.*

You can get a mutual-fund directory, which includes tax-exempt municipal-bond funds, by sending $5 to The Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, D.C. 20036. Richelson's book costs $12.50 postpaid from Scarsdale Investment Group, 340 Miles Drive, Blue Bell, Pa. 19422.

Making Money Drip By Drip

If you own several stocks, you have to decide what to do with the dividends. You can spend the money, put it into a savings account, or, with most brokers, you can have dividends swept into a money-market fund to earn interest.

By siphoning off dividends, however, you miss out on the compounding power of having them automatically reinvested to increase your number of shares.

One way to this is called the DRIP method, which stands for Dividend Re-Investment Program. More than 1,000 companies, many of them major stock-exchange names, offer DRIPs to investors. A few of the plans can be accessed directly through the issuing companies, but most have to be started by the purchase of some stock from a broker. Once you're enrolled in a DRIP, your dividends are automatically reinvested, which means you don't have to pay any commissions to the broker.

With many of the plans, you can buy additional shares without paying a commission, and in some instances you may qualify for a discount of 5 percent or so off the current market price.

When you sign up for a DRIP, you have to really like the issuing company for the long haul because you can't just sell shares with a phone call to get your money out as you can with a broker. "Some plans might only sell shares on a quarterly basis," says Sumie Kinoshita, publisher of the *Directory of Companies Offering Dividend Reinvestment Plans*, which lists more than 1,000 companies and contains details of each plan.

There's also the question of keeping records. "You've got to keep all the statements they send you," Kinoshita says, "because someday in the future, when you sell shares, you're going to need the cost basis of each dividend reinvestment and additional purchase for tax purposes."

If you decide to invest in a DRIP or two, it's a good idea to pick solid stocks that have excellent dividend records. The DRIP directory gives Standard and Poor's ratings from A-plus on down to C and D for each listed company.

"Before you invest," Kinoshita says, "you should read the company's special DRIP prospectus carefully to find out how shares are bought and sold and whether there are any limits on buying additional shares."

You can get a copy of the DRIP directory by sending $28.95 to Evergreen Enterprises, P.O. Box 763, Laurel, Md. 20725-0763. ■

ESTATE PLANNING

Quick And Easy Standby Trusts

"Some people see the estate-planning value of setting up a revocable living trust," says attorney Rhonda Brink in Austin, Texas, "but they're hesitant about taking the big step of transferring all major assets right now."

Others might be expecting a sizable amount of securities as an inheritance, but the estate is not yet settled. Or someone might have a major piece of real estate under contract for sale, but the deal hasn't been closed.

All these and other similar situations might be better handled with a standby trust.

If you fall victim to accident or illness and become incompetent, a standby trust can be funded—with a durable power of attorney—to have the management of your income and assets handled according to your wishes.

Upon your death, disposition of your wealth through the trust avoids the costly and time-consuming probate process normally applied to wills.

A standby trust can get you started in an estate plan with relatively little fuss. Unlike a regular trust, the standby can be started with as little as $25 to $50.

If you become incompetent or die, your major assets are transferred into the standby trust by your agent under your power of attorney, for management by a selected trustee according to your wishes.

For more details on how, or whether, you might benefit from one of these trusts, you should consult an attorney who specializes in estate planning. ■

For Your Tax File

How to keep taxes from overtaxing you.

By Albert B. Ellentuck



PHOTO: © MICHAEL J. PETTYPOOL—UNIPHOTO

CHARITABLE DONATIONS

The Art Of Giving

If you make a charitable contribution of such appreciated tangible personal property as a work of art, you may get a tax break.

Donate a painting to a charity, for example, and its fair market value will be deductible; what's more, you won't pay any capital-gains tax on the appreciation in its value.

But there could be a drawback.

Under the 1986 Tax Act, the appreciation element was made an alternative minimum tax (AMT) preference. This means the AMT may have to be paid if the taxpayer who makes such a donation has a significant amount of appreciation in the painting or other preferences, such as certain tax-exempt interest. (For more on the AMT, see the following item.)

In some cases, the AMT could even exceed the tax savings on the capital gains and the deduction.

Under such circumstances, it would be better to sell the painting and give the cash to charity rather than donate the painting directly.

Congress recently eliminated this tax preference on gifts of appreciated tangible personal property, but the elimination is only for 1991. There is talk in Congress of extending this one-year moratorium, but such action is unlikely.

If you have a painting or statue that has appreciated substantially and you are thinking about donating it, check with your tax adviser as soon as possible. This window of opportunity may end on Dec. 31, 1991, for all individual and many corporate taxpayers. ■

INSURANCE

Key-Man Coverage

So-called key-man life insurance is a useful tool for small businesses. The life-insurance proceeds can be used to make up for losses suffered when an executive dies, or to fund a buy/sell agreement, using the insurance proceeds to buy stock from a deceased stockholder's heirs. However, a company that does not plan carefully may face a trap.

The potential trap is the Alternative Minimum Tax, which calculates a separate tax based on separate rules, including the elimination of deductions for preferences such as accelerated depreciation. In addition, because of the AMT, a company that has higher earnings than the net income shown on its income-tax returns can be required under the AMT to pay a tax on as much as 75 percent of the difference.

How does this affect key-man insurance? Normally these insurance proceeds payable to the company would be tax-free. But let's consider a company that already is subject to the AMT because it has a significant amount of tax preferences.

A key executive dies, and the company collects $200,000 in insurance proceeds. The company could be subject to additional AMT on as much as 75 percent of $200,000—$150,000. At a corporate AMT rate of 20 percent, the company could be hit with an additional tax of up to $30,000.

One solution is to change the buy/sell agreements from corporate to personal ownership. If the company's owners hold insurance policies on each other, the proceeds of the policies are not paid to the corporation; they are paid instead to a specified person, who pays no tax because the insurance payment is not considered taxable salary or dividends. This same approach can be utilized through a trust arrangement.

Another option is to increase the amount of insurance coverage so that the corporation can pay the additional tax and still have money left over to fund the stock buyout or cover the key-man expenses. Or, if a corporation qualifies, it might consider making an S-corporation election, because S corporations are exempt from the AMT.

In any event, the AMT has changed the rules. Careful planning is a must. ■



Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

CASH MANAGEMENT

"Borrowing" From Your IRA

During hard economic times, people can become creative in getting their hands on spendable cash—even if only for a short time.

For several years, knowledgeable taxpayers have been rolling over their Individual Retirement Accounts so they can temporarily use the cash. The rule has been that you can withdraw money from your IRA account and put it back into a new account with a different institution within 60 days of the withdrawal. If you do it within that time period, you do not incur any tax or penalties, and you have the use of the cash for 60 days.

It is important to proceed with caution, however. This technique is risky: When the 60 days are up, it may be very difficult to find the money that must be returned to the IRA. If you don't find it, you will incur taxes and penalties. But if you are sure of the source of replacement cash, the technique could be useful—and the Internal Revenue Service has made it even easier. According to a recent IRS ruling, you can put the funds back into the *same* account—without taxes or penalties—as long as you do it within the 60-day period. This is allowed only once in any 12-month period. ■

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

INTERNSHIPS

Printer's Link

I have a brother who will graduate from a three-year course in printing this September. I would like him to do an internship with a multicolor printing firm in New York to broaden and consolidate his printing skills after graduation. How do I locate such firms?
E.P.A., Bendel State, Nigeria

Write to Tim Freeman, president of Printing Industries of New York State, 455 Commerce Drive, Amherst, N.Y. 14228.

The organization represents printing companies and suppliers.

Freeman asks that you include the name of the school where your brother is enrolled, the kind of work that interests him, and whether he would prefer that his internship be in any particular region of New York. ■

CAMPGROUNDS

R&R For RVers

I am interested in starting a recreational-vehicle park. Where do I begin?
J.V.V., Anchorage, Alaska
(Similar question from J.E.M., Gulfport, Miss.)



ILLUSTRATIONS: DAVE ALLEN

Ask Dawn Mancuso, executive director of the National Campground Owners Association, for a publications list and order form. The address is 11307 Sunset Hills Road, Suite B7, Reston, Va. 22090. The association's *RV Park Development Kit*, which costs $130, covers all aspects of starting and operating an RV park, including environmental health practices, marketing, national standards, zoning, planning, and national economic statistics.

Very few parks serve RV owners exclusively, Mancuso says. Typically, overnight recreational parks offer accommodations to tent campers as well.

The association also offers 70 audio cassettes on many topics, such as RV park maintenance and cost-effective management. Each cassette costs $11 for members or $13 for nonmembers. Membership costs are based on categories (such as student or business) and range from $50 to $250 a year.

Mancuso suggests you attend the association's educational conference set for Dec. 11-14 in San Diego, Calif. ■

AQUACULTURE

Steam Feat

We own a small, 80-megawatt, coal-fired power plant that produces a lot of steam. We are interested in using the steam to heat a pond for raising prawns. How can I find out more information about building and operating a prawn farm?
L.F.T. Jr., Norristown, Pa.

Most of the 25 American shrimp farmers—a prawn is a large shrimp—are in Texas, South Carolina, Louisiana, and Georgia, according to Russell Miget, a fisheries specialist at Texas A&M University.

Shrimp is an internationally traded commodity, Miget says, and there is stiff competition from shrimp farmers in developing countries with shrimp-production costs much lower than those in the United States.

Miget estimates the average start-up cost for a standard 40-acre shrimp farm is $280,000. Most breeding grounds are open ponds, he says, but a few shrimp farms are enclosed. At Texas A&M, for example, an enclosed shrimp-research facility is next to a power plant.

A shrimp "crop" takes about six months to mature for harvesting, says Miget. Harvesting involves collecting the shrimp in nets while the pond water is being drained.

For more information, write or call Miget at Texas A&M Center, Route 2, Box 589, Corpus Christi, Texas 78410; (512) 749-5207. ■

CLEANING INDUSTRY

Carpet Facts

How can I find national statistics on the carpet and upholstery cleaning industry?
J.B.S., Lockport, N.Y.

Sharon Ferraro, membership director for the Building Service Contractors Association International, says a broad-based national statistical study of the carpet and upholstery industry may be hard to find.

Nonetheless, she says, several cleaning-products manufacturers have conducted their own surveys, her association has collected some statistics, and some independent groups have studied the cleaning industry. She can direct you to some sources. Contact the Membership Services Department of the Building Service Contractors Association, 10201 Lee Highway, Suite 225, Fairfax, Va. 22030; (703) 359-7090. Fax: (703) 352-0493. ■



TELEPHONE SERVICE

Numbers In The 900s

I am interested in information on starting a 900-exchange telephone service.
B.B., Richmond, Va.

Call your long-distance provider for general information on 900 service, including line charges, electronic equipment needed, and helpful tips. AT&T customers should call 1-800-243-0900. If you have US Sprint, call 1-800-735-5900. MCI handles 900-service information through regional sales offices; call 1-800-444-3333. ■

DISASTER SURVIVAL

Moving-Earth Equipment

I would like to start a business selling earthquake emergency kits. What should I include in the kit, and how do I begin?
J.G., Santa Ana, Calif.

The Orange County Chapter of the American Red Cross conducts classes in preparedness for earthquakes and other disasters, and the necessary contents of a disaster kit are spelled out in those sessions.

"Each kit is unique to each family, so it is virtually impossible to standardize earthquake disaster kits," says Red Cross spokesman Bob Alexander.

According to Alexander, each kit should be tailored to include medicines, special foods, and supplies that are specific to the needs of various family members, such as infants or the elderly, as well as for family pets.

Registration for a class costs $5, and the fee includes a copy of the booklet *Earthquake & Disaster Preparedness*, which you could find helpful.

To register for a class or to obtain more information, write or call the American Red Cross at 601 N. Golden Circle Drive, Santa Ana, Calif. 92705; (714) 835-5381. ■

FOOD RETAILING

Bagels For Beginners

My husband and I are interested in opening a bagel shop in a resort town. Neither of us knows anything about bagels, but we are excited about our new idea and need information about it.
S.W., Mountain Lakes, N.J.



The Retail Bakers of America offers a free information kit on the costs of opening a bakery of any type, including a bagel store.

The kit also explains what equipment is needed and where to go for ingredients, and it contains a list of trade associations that might be useful. To request a kit, write or call the Retail Bakers of America, Presidential Building, Suite 250, 6525 Belcrest Road, Hyattsville, Md. 20782; (301) 277-0990.

You also might be interested in several articles on bagel production that appeared in *Bakery Production and Marketing*, a monthly magazine from Gorman Publishing, 8750 W. Bryn Mawr, Suite 1400, Chicago, Ill. 60631.

For reprint information, please call Mary Mazur in the circulation department, (312) 693-3200. A subscription costs $79 a year, but it is free for an established retail bakery. ■

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have developed *The Small Business Resource Guide*, which contains answers to the questions we are asked most frequently. The booklet is now available for $5.95 a copy (plus $1 for handling).

To order, send a check or money order to the Circulation Department at the address above. ■

From the editors of Direct Line

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Nation's Business brings you answers to the most freqently asked questions from Direct Line, the popular advice column for small-business owners. The guide contains useful advice about: ◆ setting up a business ◆ marketing ◆ retailing ◆ exporting ◆ franchising ◆ trademarks and copyrights ◆ patents ◆ financial planning ◆ managing people ◆ and much, much more.

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1615 H Street, N.W., Washington, D.C. 20062

Where I Stand

On Improving Highways

Your response to this poll will be provided to key members of Congress for consideration in the debate over improving the nation's highway system.

Send the attached postage-paid response card. Or you can circle your answers, fill out the coupon below right, and fax this page to (202) 463-5636.

1. How important is it for our nation to improve its roads and bridges?

1. Extremely important
2. Important
3. Unimportant
4. Extremely unimportant
5. No opinion

2. Should the federal government's role in planning national highway systems be drastically reduced now that the interstate system has been completed?

1. Yes
2. No
3. No opinion

3. The Bush administration wants to shift to the states more responsibility for financing highway construction. Do you:

1. Agree
2. Disagree
3. Have no opinion

4. Should the federal government first spend the money in its highway trust fund for roads before imposing new gasoline taxes?

1. Yes
2. No
3. No opinion

5. If you had to choose, would you prefer to see future highway construction financed through tolls or higher gasoline taxes?

1. Tolls
2. Higher gasoline taxes

6. Should the federal government's share of financing for mass-transit projects be the same as its share for roads?

1. Yes
2. No. The federal share for mass transit should be less.
3. No. The federal share for mass transit should be greater.

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Franchising

In the temporary-help industry, franchised firms are developing ways to keep their services competitive.

By Meg Whittemore

Temporary Assignments

Even in the current economic slowdown, franchisee Betsy Lindgren sees a bright future in a certain federal statistic: The Department of Labor says the third-fastest growth rate among employment sectors is being posted by the temporary-help industry.

Lindgren owns an Express Services Temporary franchise in Owatonna, Minn. Her strategy for success in a recession? "I make sure our customer service is at its peak performance," she says.

Lindgren supplies more than 75 manufacturing companies with temporary personnel, helps recruit executives, and offers training. "We are a one-stop shop in the field of personnel," she says.

Robert Funk, president and founder of Express Services, based in Oklahoma City, Okla., says: "There is a reshuffling going on in corporate America. The heavy burden of benefits per employee, plus the decline in the actual productive hours per day, has forced industry to look at other methods of hiring people."

Besides cost savings, companies today want specialized employees for short-term help. "We have the ability to customize a program to fit the client's specific need," says Lindgren.

Start-up costs for a franchise outlet of Express Services are $67,000 to $110,000, depending on the market size and location.

Increased competition in the temp industry is prompting various business-building tactics. For example, Uniforce Temporary Services, based in New Hyde Park, N.Y., is waiving its $15,000 fee for new franchisees who have executive-level experience in the industry. Remedy/Temp, headquartered in San Juan Capistrano, Calif., offers clients their money back if they are dissatisfied.

Helping client companies increase productivity with a diminished workforce base can spell success for temporary-employee franchises. NB



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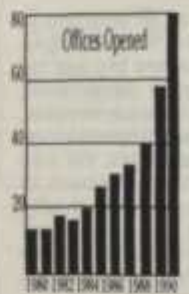
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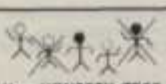
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Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them.
Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Reining In RICO



ILLUSTRATIONS: RICHARD GAGE

A new effort is under way in the House to limit the use against legitimate businesses of a law aimed at fighting corrupt organizations.

Business has backed reform of the 1970 law—the Racketeer Influenced and Corrupt Organizations Act (RICO)—for several years because of the increased application of RICO in routine disputes against legitimate businesses.

Legislation introduced by Rep. William J. Hughes, D-N.J., to reform the law would return the statute's use to its original intent. Hughes' bill, H.R. 1717, would preserve the civil remedies available to plaintiffs under RICO but limit their application to cases where there had been criminal activity. Remedies include treble damages and attorneys' fees.

The bill would require plaintiffs to prove that a defendant's actions had been criminal.

The RICO Improvement Act of 1991, as Hughes' bill is known, emphasizes that the use of RICO in civil suits should be confined to patterns of egregious criminal conduct and should be applied only when it serves the public interest.

The U.S. Chamber of Commerce believes the legislation strikes a fair balance between preserving plaintiffs' use of RICO and offering defendants equitable protection against abusive, unwarranted suits.

Contact your representative to urge support for H.R. 1717 and to emphasize that RICO reform is badly needed. Urge your senators to back reform of RICO as well.

Limiting Exports

Half of all U.S. exports would face restrictions under legislation passed by the Senate and awaiting action in the House.

The Senate bill, S. 320, introduced by Sen. Donald W. Riegle Jr., D-Mich., would renew, reform, and extend the Export Administration Act. The act governs policies and procedures of the U.S. national security system and foreign-policy export-control programs. According to the U.S. Chamber of Commerce, which strongly opposes S. 320, the proposed revisions to the act would unnecessarily complicate export-licensing requirements.

The Chamber wants Congress simply to enact a one-year extension of the existing law. Such an extension would allow time for:



- Further implementation and a business evaluation of the Bush administration's ongoing effort to implement export-control reforms.
- A complete assessment of the administration's program to strengthen certain U.S. and multilateral controls.
- Full consideration of a recent congressionally mandated study on export controls.
- Completion of ongoing negotiations within the Coordinating Committee on Multilateral Export Controls on reducing and streamlining certain dual-use items that could have military applications.

Contact your representative to urge simple extension of the existing Export Administration Act. Urge opposition to legislation that would renew the law but mandate new export controls.

Fostering Research



Congress will soon conduct what has become its annual debate over extension of the research-and-experimentation (R&E) tax credit used by many businesses.

However, the annual ritual has taken on a new twist this year. The budget law enacted last November requires Congress to offset measures that cost the Treasury money—such as the research credit—with measures that would increase revenues by an equal amount.

This means business's fight for extension will be more difficult than usual.

According to the Bush administration's fiscal 1992 budget, the R&E tax credit finances about half of all U.S. research and experimentation. The private sector performs more than half of that research.

The U.S. Chamber of Commerce believes a strong national research-and-experimentation strategy is vital to the nation's long-term economic growth and its ability to compete in the global marketplace. It also believes a permanent R&E tax credit is a vital component of a successful strategy to encourage long-term research and experimentation.

Thus, it is pushing for passage of S. 416, introduced by Sen. John C. Danforth, R-Mo., and H.R. 1618, introduced by Rep. Ed Jenkins, D-Ga.—bills that would make the tax credit permanent.

Contact your senators and representative and urge their full support for legislation to make the R&E tax credit permanent. NB

Editorial

Deposit-Insurance Reform Is Key To Banking System's Overhaul

Comprehensive reform of the financial-services industry has many facets, but the initial goal must be the successful restructuring of the deposit-insurance system.

That system cannot be considered sound as long as well-run banks and poorly run banks pay the same premiums for deposit insurance and as long as taxpayers are responsible for the system's liabilities of about $2.7 trillion.



PHOTO: CISABE PALMER—THE STOCK MARKET

Warnings of a potential banking and deposit-insurance crisis not far down the road have been issued repeatedly by the leaders of the Federal Deposit Insurance Corp., the government entity that manages the deposit-insurance fund.

These warnings have prompted numerous legislative proposals, but most of them would simply burden depositors and banks with new regulations and costs.

For example, the administration has proposed new limits on the deposits per individual that the government would insure. It has also proposed stricter requirements on the amount of capital that banks must have on hand.

Both of these recommendations would ultimately hurt banks, depositors, and the deposit-insurance system. New limits on insured deposits would encourage depositors to shift funds from bank deposits to other investments. Higher capital requirements would force banks to sell assets; because lowest-risk assets are most saleable, banks would be left with their more risky assets, further exacerbating their woes.

To achieve the administration's and Congress' goal of strengthening banks, Congress should adopt an approach to deposit-insurance reform that would increase bank discipline *and* make banks and the deposit-insurance fund sounder. Such an approach could use the private sector to establish the accurate pricing of deposit insurance and to provide for adequate, sustained capitalization of the deposit-insurance fund.

Today, all banks pay the same federally set premium for deposit insurance whether they are well-run or poorly run. Thus, the government-run deposit-insurance system as it is now operated favors losers.

Private-market pricing could correct this problem. Achieving market pricing would involve establishing a mechanism to allow the market to determine what individual banks should pay for insurance. Well-run institutions would pay relatively lower rates. Poorly run institutions would pay higher rates.

Sen. Alan Dixon, D-Ill., has introduced a bill (S. 261) to establish such a market-set, risk-based premium system. In doing so, his Deposit Insurance Reform Act of 1991 would provide a strong step toward reform of the deposit-insurance system. Accurate pricing of deposit insurance would remove the subsidy that is essentially transferred now from well-run banks to poorly run banks.

One private-sector approach to shoring up the deposit-insurance fund that should be considered would involve "cross guarantees." Strong banks would form a consortium, apply market standards in granting insurance, and share the loss if an insured bank failed.

Such a system would provide for the pricing and financing of deposit insurance by the industry. Today, the insurance fund is financed by taxes and government borrowing.

In reforming the deposit-insurance system, Congress must also address the current policy of viewing some large banks as "too big to fail." Under that policy, the federal government views massive support to keep such banks in operation as preferable to the impact that their failure would have on the overall financial system.

Provisions should be made to ensure that insurance coverage for such institutions is governed by accurate risk assessments and premium charges so that taxpayers don't end up paying the price for a bank's poor management.

Moving toward a system of private deposit insurance would ultimately benefit banks, depositors, and taxpayers. Market pricing would be a good first step toward comprehensive reform of the increasingly troubled deposit-insurance system. NB

Free-Spirited Enterprise

By Janet L. Willen



ILLUSTRATIONS: JIM LAWRENCE

FACT CHECKERS

It's easier to get information on the cast of "Star Trek" than to get basic business data, says Gary E. Hoover. That's why the president and CEO of The Reference Press, in Austin, Texas, published *Hoover's Handbook 1991.*

This reference book offers one-page profiles of nearly 545 of the most influential U.S. and foreign companies. It also describes major nonprofit organizations and government entities.

The handbook even answers these questions:

1. Who has more fast-food units than McDonald's?

2. What company began as the California Perfume Co.?

3. Who makes Bayer aspirin?

Answers:

1. PepsiCo (With 18,483, compared to McDonald's 11,162. PepsiCo owns Kentucky Fried Chicken, Pizza Hut, and Taco Bell.); 2. Avon, in 1886; 3. Eastman Kodak.

A NOT-SO-BRIEF CASE

It's easier than ever to take your office home with you, according to **Stephens Engineering Co. Inc.**, of Greenbelt, Md. The firm sells "an office in a briefcase." The SEC 2000 packs into a briefcase-sized carrying case a 3-watt cellular telephone; a computer with a 40-megabyte hard-disk drive, 1.44-megabyte floppy-disk drive, one parallel and two serial ports, math co-processor, and a VGA display; an ink-jet printer; standard Group III facsimile; a 2,400-baud Hayes-compatible modem; and a port for hooking up an external monitor and printer.

The portable workstation weighs 28 pounds and costs $8,995. Warning: There's no room left in the case for lunch—or liniment, for those who think 28 pounds stretches the definition of portable.

CONTINENTAL DRIFT

The world as we know it is not the world as it is, says



Ward L. Kaiser. The reason, he says in *A New View of The World* (Friendship Press), is that the map you grew up with—the Mercator map that's been in use since the 16th century—distorts the true relative sizes of countries and continents.

Kaiser says the world is more accurately depicted in the Peters Projection map, created by German historian Arno Peters. Compared with the Mercator map, Peters' map shows a huge Africa, smaller South America, and a still smaller Europe.

That's as it should be, says Kaiser. Africa has 11.6 million square miles, South America has 6.9 million, and Europe has 3.8 million.

But even Peters' map isn't perfect. Says Kaiser: You can't transfer the earth's spherical shape to a flat surface.



MEGABUGS

Turn a negative into a positive. Executives at **Combat Roach Control System**, of Oakland, Calif., hope their customers take this public-relations advice to heart.

The manufacturer of roach traps is sponsoring an annual Quest for the World's Largest Roach Contest. The winner, to be announced in August, will receive $1,000 and a year's supply of Combat bait trays. An award will also be given to the most creative presentation. Last year's largest roach measured 1.88 inches. And the most creative entry showed roaches sunbathing and windsurfing—and dead.



THE PORTABLE PORCH

Another bug-control system comes from **Bug Baffler**, of Goffstown, N.H. Manufacturers Phyllis Biron and Jan Merrill say they devised their bug-protective clothing in self-defense. They wanted to be outside without being eaten alive.

The clothing is made of screening material. The company makes ankle guards, pants, and a shirt that has a hood with a net to cover the face.



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But don't think of us solely for electron gun technology. We're a US$45 billion international corporation.* With 290,000 employees. And over 20,000 products—everything from optoelectronic integrated circuits to electric shavers.

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*US$44,797 million; net sales for the year ending March 31, 1990. US$1=¥158.

For more information about Ultravision, call toll-free 1-800-HITACHI. (Applicable within U.S. only)

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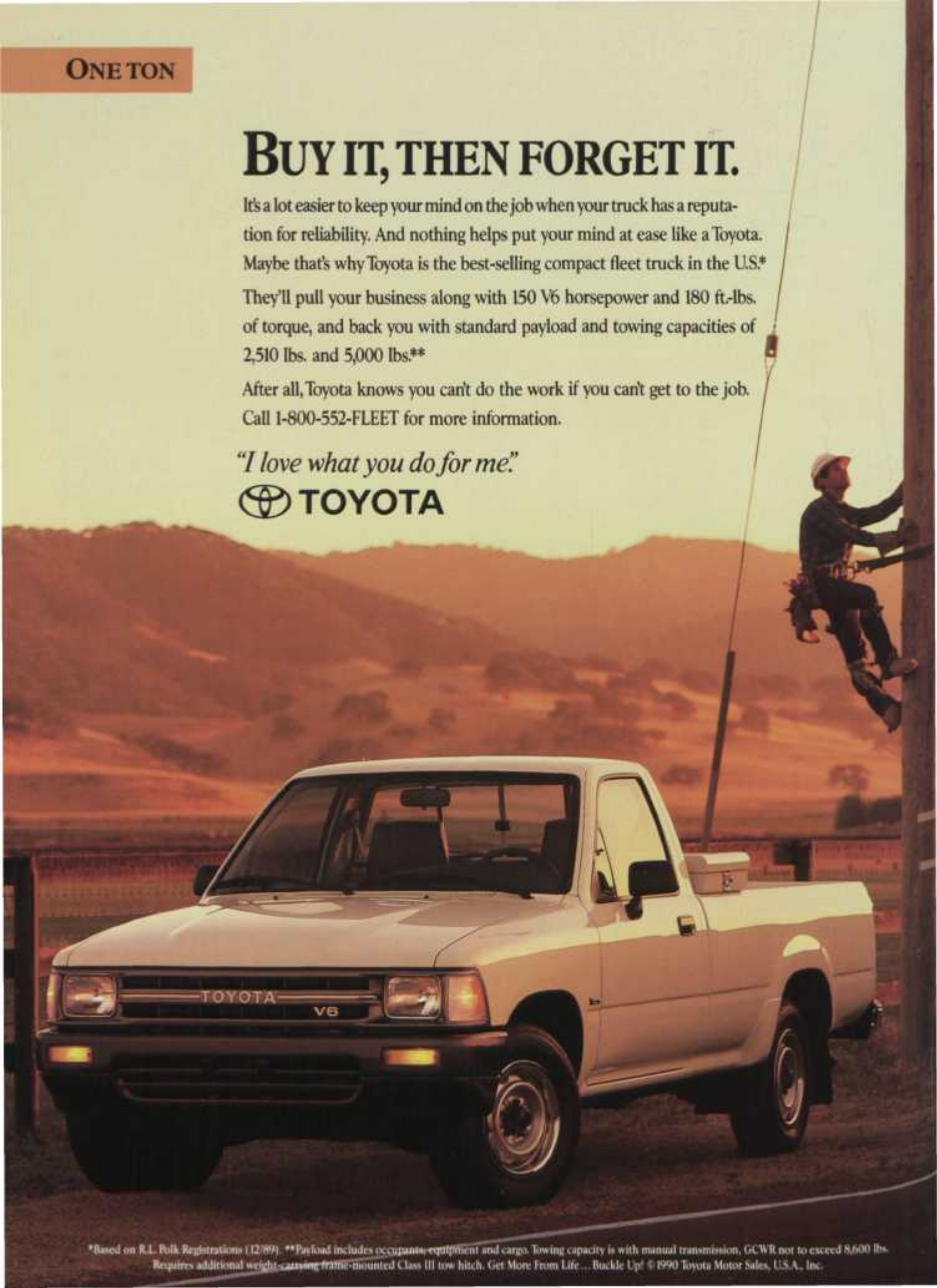
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